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Development under Conditions of Inequality and Distrust

Social Cohesion in Latin America

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INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

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Contents

List of Tables

List of Figures

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Marco Ferroni is the Executive Director of the Syngenta Foundation for Sustainable Agriculture. Mercedes Mateo Díaz is a Modernization of the State specialist at the Inter-American Development Bank (IDB). Mark Payne is a consultant at the World Bank. The statements and opinions expressed in this paper are those of the authors and should not be construed as institutional positions. The paper was completed in mid-2007 when the authors were with the Sustainable Development Department of the IDB. Revisions were subsequently made to reflect acknowledged comments by a reviewer.

ABSTRACT

This paper analyzes the role of social cohesion in economic and institutional development and, broadly, the creation of welfare in Latin America. The paper defines the concept of social cohesion with reference to the notions of social capital and inequality. Using data and literature on Latin America, the paper argues that low interpersonal trust and entrenched inequality interfere with cohesion. The paper develops and introduces an exploratory index of cohesion structured around the definition proposed. Relying on correlations, and with appropriate caveats, the paper uses this index to explore tentative linkages between levels of cohesion and development outcomes. The paper presents evidence of positive linkages among social cohesion and economic growth, investment and innovation capacity, governmental effectiveness, the quality of public policies, and the predictability of the policy environment. Finally, the paper discusses the significance of these findings and some of the policy implications.

Keywords: social cohesion, social capital, trust, inequality, exclusion, opportunities, governance, institutional development, economic growth

1. INTRODUCTION

Economic development and human welfare are complex propositions and the consequences of many factors. The satisfaction of material needs is but a partial answer to the broader question of what happiness is and how improvements in the quality of life can be secured. Income is an important aspect, but so are other dimensions of fulfillment and contentment, in particular physical and mental well-being, trust and respect, dignity, belonging, and the degree of control over one's destiny and life.

Although income is positively correlated with some of these dimensions, the literature shows that the relationship between income and broader indicators of welfare is often tenuous and sometimes negative. For example, examining causes of welfare gains in developing and Organization of Economic Development and Cooperation (OECD) countries over time, Charles Kenny and Anthony Kenny (2006: 100) find that government intervention, technology, and institutions, not national income, were critical to securing improvements in public health. Their analysis leads them to conclude that for "the great majority of countries, it is likely that the causal link from welfare improvements to economic growth is considerably stronger than the causal link from economic growth to improvements in welfare."

The case for including nonincome measures in analyses of development, welfare, and the quality of life, therefore, seems strong. This paper addresses one such aspect—*social cohesion*—that can be thought of as an end in itself and as a means to achieve other objectives, such as faster economic growth.

Social cohesion refers to the level and nature of satisfaction of individuals' relational needs together with the sense of belonging and solidarity that is generated by a system structured to ensure the welfare of all. This paper treats social cohesion as an asset for economic development and the creation of welfare. It can be argued, for example, that meeting the challenges of sustainable growth in a context of increasing globalization requires flexible, yet cohesive societies able to share the costs of adjusting to changing market conditions and to sustain quality investments in infrastructure and in the education of the workforce. In principle, societies with high levels of social cohesion will be better positioned to face these challenges and more responsive at the individual level and in organizational terms.

The second section of this paper examines the application of the concept of social cohesion to policy discussions by looking at how it has been defined and used in certain settings and in the academic literature. The third section discusses the relevance of the concept for development in Latin America given the region's historically high levels of social and economic inequality and exclusion and relatively weak mechanisms of social protection. We develop a social cohesion index in section four that allows exploration in section five of how social cohesion relates to outcomes linked to development, including the rate of economic growth, technological innovation capacity, governmental effectiveness, political stability, and the quality and predictability of the policy environment. Section six concludes the paper and spells out some of the implications for the choice and design of policy and public action. In the appendices, we define the variables used in the construction of the index, discuss methodological aspects, and supply composite data.

2. SOCIAL COHESION: DEFINITIONS AND APPLICATIONS

In recent years, the concept of *social cohesion*, and that of *social capital*, has become more widely used in policy-related discussions of governments and international organizations as well as in academic studies. As such, these concepts have attracted interest as policy goals (or as frameworks for organizing policy debates) and as points of reference for social scientific analysis (Beauvais and Jenson, 2002; Bernard, 1999). With respect to social cohesion, however, work is at an early stage and is limited by a lack of agreement on the definition and applicability of the concepts and the deficiency of existing measures in terms of both their conceptual validity and their coverage.

This section examines different definitions and uses of the concepts based on a selective survey of theoretical and empirical literature. It addresses social cohesion first and then deals with social capital, inequality, and exclusion, linking them to the notion of cohesion.

Social Cohesion

In a policymaking context, one of the first uses of the concept of social cohesion was in relation to the process of regional integration in Europe. European law favors actions to strengthen economic and social cohesion as a means of promoting the harmonious development of Europe,[1] an objective that requires the reduction of disparities among countries and regions.

The Council of Europe[2] recently outlined a strategy in which it set social cohesion as a priority goal for European countries.[3] In the document, social cohesion is defined as “the capacity of a society to ensure the welfare of all its members, minimizing disparities and avoiding polarization.” Thus, in this context social cohesion is defined in large part as a policy goal focused on ensuring that all citizens have an opportunity to improve their situation and are guaranteed basic social rights such as decent living standards and adequate health care.

Social cohesion also plays a role in framing policy discussions in Canada, with the creation of a social cohesion network and the publication of a report on social cohesion by the Canadian senate. The Canadian interest in the concept arose in part from the perception that the forces of globalization were contributing to the exacerbation of social cleavages and weakening the traditional axes of community identification, including democratic values, mutual attachments, and willingness to engage in collective action (Jeannotte, 2003). The Social Cohesion Network got underway in 1998 with a values-based definition of social cohesion as “the ongoing process of developing a community of shared values, shared challenges, and equal opportunity within Canada, based on a sense of trust, hope, and reciprocity among all Canadians.” It is worth noting that in 2002, the network adopted a more behavioral definition reminiscent of some of the discussions regarding social capital referred to below: “social cohesion is based on the willingness of individuals to cooperate and work together at all levels of society to achieve collective goals” (Jeannotte, 2003: 3).

The governments of several other countries, including those of Australia, Denmark, France, and New Zealand, have also focused on social cohesion, partly to highlight the close connections between social and economic policy and the need to coordinate policy actions across multiple sectors. The definition the government of New Zealand developed is perhaps the most comprehensive: “Social cohesion describes a society where different groups and institutions knit together effectively despite differences. It reflects a high degree of willingness to work together, taking into account diverse needs and priorities. Social cohesion is underpinned by…individual opportunities (including education, jobs, health); family well-being (including parental responsibility); strong communities (including safe and

[1] Title 5, Article 130A, Official Journal L 169, June 29, 1987, p. 0009.

[2] The Council of Europe was established in 1949. It consists of 46 member countries and has its headquarters in Strasbourg, France. The Council of Europe is not an institution of the European Community (composed of 25 member states), though no country has entered the union without first belonging to the Council of Europe.

[3] The Revised Strategy for Social Cohesion, approved by the Council of Europe in March 2004 (Council of Europe, 2004).

reliant communities); and national identity (including history, heritage, culture, and rights and entitlements of citizenship)" (quoted from Senate of Canada, Standing Committee on Social Affairs, Science and Technology, 1999).

The focus on social cohesion of multilateral development institutions, such as the World Bank and the Inter-American Development Bank (IDB), builds on many years of development-related research. This research points to the complementary nature of efforts to reduce inequality (such as by investments in *human capital* through expenditures on education, health care, and social protection) and to promote sustainable development. More recent research highlights the importance of the development of such factors as political stability, transparent and accountable government, and social capital. In work at the IDB, the goal of building social cohesion has been viewed to entail a focus on reducing social exclusion and inequality and on enhancing social solidarity, in terms of building both more cooperative relations among citizens and a greater degree of civic responsibility in citizens' relations with public institutions (Bouillon, Buvinic, and Jarque, 2004). ECLAC, the United Nations (UN) Economic Commission for Latin America and the Caribbean, recently has taken up these thoughts, noting that in its region of focus the notion of social cohesion has emerged as a potentially helpful response in building solutions to such persistent problems as extreme inequality and forms of exclusion that date back to the distant past (ECLAC, 2007a).

The theoretical literature identifies a number of dimensions of the concept of social cohesion, with some researchers choosing to limit their focus on particular constituent elements and others taking a broader approach. For instance, Jenson (1998) and Bernard (1999) adopt a comprehensive approach in which social cohesion comprises six dimensions: (1) equality–inequality, (2) recognition–rejection (referring to the degree of respect and toleration of differences), (3) legitimacy–illegitimacy (with respect to the institutions that act as mediators of social relations), (4) inclusion–exclusion (as regards the degree of equality of social and economic opportunities), (5) belonging–isolation (involving the extent of shared values, identities, and feelings of commitment), and (6) participation–noninvolvement.

Other researchers have chosen narrower definitions. The Council of Europe, as noted above, centers its definition on the objectives of minimizing social and economic disparities and ensuring opportunities for all. Another group of researchers has emphasized the importance of shared values and a sense of community belonging (Chan, Chan, and To, 2003; Dahrendorf et al. 1995 Maxwell, 1996; Miller, 1998). For example, Chan, Chan, and To feel that in a cohesive society "citizens can trust, help, and cooperate with their fellow members of society, share a common identity or sense of belonging to their society, and the subjective feelings in the first two points are manifested in objective behavior." Other researchers have focused on an ability to work together (Canadian Social Cohesion Network in Jeannotte, 2003; Reimer and Wilkinson, 2003; Ritzen, Easterly, and Woolcock, 2000) or on the strength of community bonds.

In an effort to bring together these various approaches, Berger-Schmitt (2000) identifies two main societal dimensions in the concept of social cohesion. The first dimension is the reduction of disparities of opportunities, inequalities, and social exclusion and the second is the strengthening of the "density and quality of relationships and interactions between individuals or groups, their mutual feelings of commitment and trust due to common values and norms, and a sense of belonging and solidarity…" Thus, one dimension has to do with the extent of social exclusion/inclusion and the other with social capital.

The definition of social cohesion adopted in this paper is based on this two-dimensional perspective of the concept: Social cohesion entails a capacity for cooperation and solidarity in society based on an equitable distribution of opportunities to participate in economic, social, and political life, as well as trust in societal rules, institutions, and fellow citizens. Understood in this way, the concept of social cohesion can be operationalized in terms of two separate (but, as we shall see, interacting) dimensions.

The first dimension focuses on the extent of social capital that is present, that is, the degree to which citizens are able to work together because they trust each other. Where there is a lack of basic trust in institutions and fellow citizens, the scope for mutually beneficial transactions between individuals and societal groups is narrow. The second dimension centers on the degree of equality in the distribution of opportunities. For example, only if citizens have the opportunity to find adequate work and have some guarantee of protection of their personal security, livelihood, and health are they likely to share a sense of responsibility for, feel part of, and be willing to contribute to the community and the society in which they live.

Social Capital

The idea of social capital is not new in the social sciences. The notion of relational arrangements and cooperation "recaptures an insight present since the very beginnings of the discipline" (Portes, 1998: 2). In the past decade there has been growing interest in this area. In 2000, the topic of social capital occurred in about a quarter of the absolute number of citations in EconLit, a database of publications in economics (Fabio Sabatini, 2006: 3, citing Isham et al., 2002).

The definitions of social capital vary widely in this literature, but there is also some degree of consensus around the positive contribution of trust and certain types of social engagement and cooperation to growth and well-being (Franke, 2005: 2). Indeed, the problem of trust has been singled out as one of the most fundamental challenges in organizations and society at large (Ostrom, 1998; Rothstein and Stolle, 2002) on the intuition that "trust acts like a lubricant that makes any group or organization run more efficiently" (Fukuyama, 1999: 16). This intuition is supported more formally in standard noncooperative game theory, which makes it clear that "it makes no sense to support solutions for the common good if you do not trust most other agents to do the same" (Rothstein and Stolle, 2002: 2).

The instrumental value of social capital for public and private organizations is evident from studies showing that "enterprises devote an ever more relevant part of their financial resources to activities which are not directly related to production processes," including, for example, "nurturing a cooperative climate inside the workforce and building trustworthy relationships with external partners" and clients (Sabatini, 2006: 2).

Social capital is often invoked in public policymaking, where it has been understood both as a factor affecting the achievement of collective benefits and as an outcome indicator of welfare, as exemplified by the Canadian government and international financial institutions such as the World Bank (See Fine, 2001; Franke, 2005; Grootaert and Bastelaer, 2002; Harriss, 2002; and Sabatini, 2006). In 2003, the Canadian government mandated the Policy Research Initiative (PRI) to operationalize the concept of social capital as a public policy tool, declaring, "The concept of social capital is important for the government of Canada because it brings together the theoretical and empirical rationale for considering social ties as a potentially important ingredient of well-being and prosperity in society" (Franke, 2005: 37).

The PRI developed an operational framework for social capital based on a social network approach in which social capital is defined as "the social networks that may provide access to resources and social support" (Franke, 2005: 9). By contrast, the OECD considers social capital as an outcome and, in particular, emphasizes its value as an indicator of social well-being (Franke, 2005: 3–4). Similarly, the British Office of National Statistics (2001) uses it as a measure of the degree of social integration.

In addition to differences in the perspective regarding the flow and direction of causality, there are differences in the appropriate levels and units of analysis (Franke, 2005; Grootaert and van Bastelaer, 2002). Three main approaches have guided the study of social capital in international organizations and, more broadly, the public sector: the microapproach (i.e., relations between individuals), the mesoapproach (i.e., relations between groups), and the macroapproach (i.e., the "structural" environment in which relations take place).

In the microapproach, social capital delineates the potential for individual cooperation through the formation of groups and associations to strengthen collective capacities. The mesoapproach concerns social networks and their value in providing resources, such as information and assistance, to individuals and groups. The macroapproach focuses on the structures (e.g., institutional, socioeconomic, and political) that create the enabling environment for social engagement and civic and political participation (Franke, 2005).

Among scholars, there is some agreement that social capital is multidimensional, context dependent, and dynamic (Sabatini, 2006). The literature comprises three basic approaches represented by the work of Pierre Bourdieu, James Coleman, and Robert Putnam (see Adam and Rončević, 2003; Portes, 1998; Sabatini, 2006).

Bourdieu emphasizes the instrumental value of social capital, stressing the potential benefits of participation and social connectedness in enhancing access to economic resources, cultural capital, and valued credentials. He defines social capital as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition…" (Bourdieu, 1986: 248). He identifies three types of capital: economic, cultural (or human), and social. With this distinction, he aims to build a theory that explains how the different types of capital relate to each other and accumulate and how people tend to convert some forms of capital into others to preserve their social positions and resources.

Emphasizing the similarity with other forms of capital, Coleman highlights the productive nature of social capital (1990: 302). According to this author, social capital "is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors—whether persons or corporate actors—within the structure" (Coleman, 1988: S98).

Putnam, who, as is well known, has greatly contributed to the popularization of the concept of social capital, defines social capital in his 1993 work with Leonardi and Nanetti as a "feature of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions" (Putnam, 1993: 167). In a subsequent work, he highlights the interplay between group membership and the development of trust and cooperation. Social capital is seen as the "connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them" (Putnam, 2000: 19).

In the definitions of these three scholars, as well as those of several others, trust is often singled out as the essence of social capital. Fukuyama, for instance, essentially equates social capital with trust (see also Bowles and Gintis, 2002; Rothstein and Stolle, 2002):

Social capital is a capability that arises from the prevalence of trust in a society or in certain parts of it. (Fukuyama, 1995: 26)

Social capital can be defined simply as an instantiated set of informal values or norms shared among members of a group that permits them to cooperate with one another. If members of the group come to expect that others will behave reliably and honestly, then they will come to *trust* one another. (Fukuyama, 1999: 16)

Restricting the concept to informal values or norms, as Fukuyama does, can be problematic. It is clear that cooperation, in part, arises from individual motivations, which may be "informal." But the climate for cooperation emerging from trust and shared values and norms is not exclusively based on informality. To a considerable extent, norms and values are created and fostered through formal institutions and/or externally enforced rules, implying some degree of formality in many kinds of shared values and rules. Norms and rules are often transcribed into laws, which serve to organize society.

As in the case of physical, financial, and human capital, social capital is an asset that mediates access to resources and benefits such as status, information, income, power, and influence. Following Bourdieu, it is therefore important to understand how different forms of capital operate in terms of their "mediating" nature and how they interrelate.[4] Reflecting on these differences, Portes (1998: 7) points out the unspecified time and terms of repayment of social capital as opposed to the case in the context of purely economic and financial exchange. Comparing the mobility and transferability of social capital with economic or physical capital, Arrow (1999) notes that with the former it is more difficult to change ownership.

[4] Franke (2005) develops a hypothetical development trajectory of the relative sizes of different types of capital.

Numerous studies have highlighted the shortcomings, ambiguities, and uncertainties of the causes and effects that haunt empirical work on social capital even within the same conceptual (or definitional) tradition. It is difficult "to devise a single concept and a single valid measure of social capital" (Adam and Rončević, 2003: 160; see also: Arrow, 1999; Durlauf, 2002a; Durlauf and Fafchamps, 2004; Sabatini, 2006). Sabatini makes the point that although there is recognition that social capital is a multidimensional concept, empirical research tends to focus on partial aspects, ignoring social and historical circumstances and concentrating on one type of network while, nonetheless, generalizing the findings to the entire population. Sabatini regrets the lack of a good "micro theory explaining trust transmission mechanisms from groups to the entire society" and the fact that "the logic underlying the connection between social ties and generalized trust has never been clearly developed" (Sabatini, 2006:12; see also Rosenblum, 1998; Uslaner, 2002).

And yet, although they criticize the definition and uses of the concept, many of these studies accept its intuitive value. Durlauf (2002b) argues that social capital research has had a "salutary effect on economics" through its "introduction of richer sociology into standard reasoning." But he recognizes basic definitional problems, along with econometric difficulties, concerning the exchangeability and identification of the models specified, which in turn call into question the causal role often ascribed to social capital.

It is precisely to deal with these shortcomings that authors such as Portes (1998: 6) emphasize the need to distinguish between the sources and owners of social capital and the benefits engendered or pursued. Along the same lines, Sabatini (2006: 11) stresses the importance of finding direct measures of social capital to overcome the confusion that exists between social capital, on the one hand, and the benefits that it is believed to convey, on the other.

Aside from the conceptual and methodological discussion, there is the issue of the intrinsic instrumental value of social capital. There is some agreement that certain types of social capital, or groups bound by social capital, may have negative effects on individuals and communities, subtracting from the common good (Durlauf, 2002b; Fukuyama, 2000; Granovetter, 1973, 1985; Olson, 1982; Portes, 1998; Smith, [1776] 1991). According to Portes (1998: 15), negative consequences of social capital include exclusion of outsiders and restricted access to opportunities, excessive claims on group members, restrictions on individual freedoms, and downward leveling norms.

In this context, Putnam distinguishes between bridging and bonding social capital. Bonding social capital refers to social ties between the members of relatively closed and homogeneous communities that tend to pursue narrow and particularistic interests, often against the common good. Bridging social capital, in turn, refers to what Granovetter (1973, 1985) calls "weak social ties," which appear in more diverse and open communities that may or may not favor links and cooperative exchanges with other networks.

Inequality and Exclusion

Bonding social capital in the absence of bridging social capital can lead to dysfunctionality in the way society operates by excluding some groups from the benefits and opportunities that others effectively enjoy. Critical literature on social capital, inequality, and exclusion includes explorations of why inequality in social capital among groups may tend to persist. Following Lin (2000), for example, social groups may have different access to social capital because of their advantaged or disadvantaged structural positions and associated networks. According to Mogues and Carter (2005: 5), economic inequality is most persistent and difficult to address when it is socially (and, one might add, culturally) embedded ("…social capital in this model may itself generate exclusion and deepen social and economic cleavages"). Figueroa, in a series of writings on inequality, social networks, and social exclusion, makes similar points (for example, Figueroa, 2003), whereas Cleaver (2005) indicates how social relationships, collective action, and local institutions can structurally reproduce and perpetuate the exclusion of some groups.

These papers (and others) thus provide frameworks (more or less formalized, depending on the paper) whereby one understands how social capital dynamics may generate and entrench economic inequality and exclusion. Esteban and Ray (1994) develop the concept of polarization (as different from inequality) to elucidate the point. The co-existence of different clusters of society with very dissimilar attributes in their analysis can generate social tension, unrest, and outright revolution and revolt.

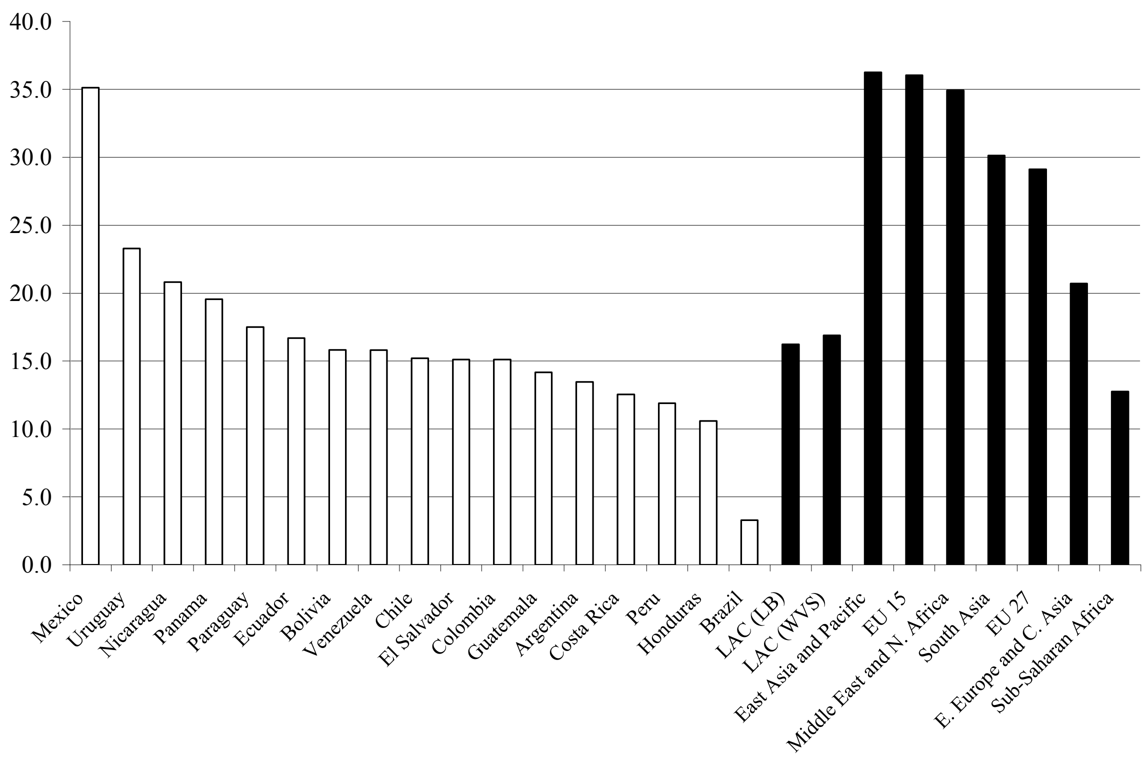
The point that this discussion enables us to make is that cohesion, as defined above for the level of society as a whole, is a consequence of the interaction between social capital, on the one hand, and inequality and exclusion, on the other. High levels of social cohesion are consistent with the combination of high levels of social capital and low levels of inequality and exclusion. The three other possible combinations of levels of social capital and inequality/exclusion are in this model associated with low social cohesion. A later section of this paper attempts to quantify these combinations using multiple indicators for a number of societies (or countries) in Latin America as a whole. Before we get there, a contextual analysis and discussion is in order.

3. SHIFTING TO LATIN AMERICA: DEVELOPMENT UNDER CONDITIONS OF INEQUALITY AND DISTRUST

Latin American countries display characteristics that by the above definitions would seem to interfere with social cohesion. In particular, trust is scarce in the region, and inequality is pronounced.

The problem of trust is addressed in opinion surveys, for example, and according to these, Latin Americans trust members of their families and their friends but rarely trust fellow citizens (Latinobarómetro, 2006: 29–32). Trust in public institutions is very low because people feel they treated them unfairly and inequitably although trust in public institutions can grow as a consequence of positive experiences with them. Latinobarómetro data for 2006 suggest that 56 percent of the people consider themselves discriminated against in their dealings with institutions. Another 19 percent are of the opinion that they are treated unfairly because they are poor. Figure 1 suggests that Latin America lags behind other world regions, except sub-Saharan Africa, when it comes to "interpersonal trust." One should expect the society-wide predisposition for consensus and cooperation, therefore, to be low, a situation that does not preclude the presence of workable or even high levels of within-group coherence and trust.

Figure 1. Interpersonal trust, Latin America, and world regions, 1999–2001



Sources: For world region averages, World Values Survey, 1999–2001 (single surveys administered in either 1999, 2000, or 2001). For Latin American countries, values represent the average of results from Latinobarómetro for 1999/2000 and 2001.

Note: Based on responses to the following questions: "Generally speaking, would you say that you can trust the majority of people or that one can never be too careful in dealing with others? Most people can be trusted or you can never be too careful when dealing with others?" The bars represent the share (in percent) of total respondents who answered, "Most people can be trusted."

Regarding the distribution of income, Latin America is still generally regarded as the world's most unequal region, with a coefficient of inequality greater than 0.5 (Table 1). The distribution of income and wealth, and that of the underlying productive assets, thus, is highly skewed, as is access to such goods as basic services, credit, education, health care, and productive jobs.

The distribution of income in individual countries is not necessarily static over time. In fact, Ferreira, Leite, and Litchfield (2006), for example, calculate Gini coefficients for Brazil of 0.574 in 1981, 0.625 in 1989, and 0.564 in 2004, a decline in inequality of some 10 percent between the latter two points in time, due in part to new approaches in redistributive policy and some income convergence between rural and urban areas. However, whereas income inequality has recently declined somewhat in Brazil, Mexico, and Peru, it has increased in Colombia, Costa Rica, and Ecuador (same source as Figure 2).

Deep inequality that changes little over time manifests itself at the country level in Latin America in income distributions that are rather flat up to decile 8 (if not 9) and top-heavy, with the richest decile capturing 40 percent or more of total income (Figure 2 in three panels). This pattern implies that although the differences in average absolute incomes among the deciles of the middle segment (here defined as deciles 3 to 8) are relatively small, the mean income of this numerically and politically important group is low. This has important implications for the dynamics of poverty, the prospects for inclusive, participatory growth, and (by our definition), social cohesion. The very poor tend to linger in the lowest two deciles and, indeed, the incidence of "extreme" poverty (using national poverty lines) is currently estimated at some 15 percent. The flatness of the distributions in Figure 2 implies, however, that a large segment of the population is concentrated near the poverty line. This suggests the presence of many low-income "near-poor" who can easily (and in fact—as shown by household panel surveys—often do) fall into poverty as a result of unemployment and other shocks even as some of those officially considered poor may exit poverty with or without the help of redistributive programs of the state. The prospects of large numbers of people are thus compromised and the implications for social cohesion dim, although the overall environment of growth—which has been relatively dynamic in recent years—can be expected to influence the net picture at particular points in time.

Table 1. Gini coefficient by region, 1997–2004*

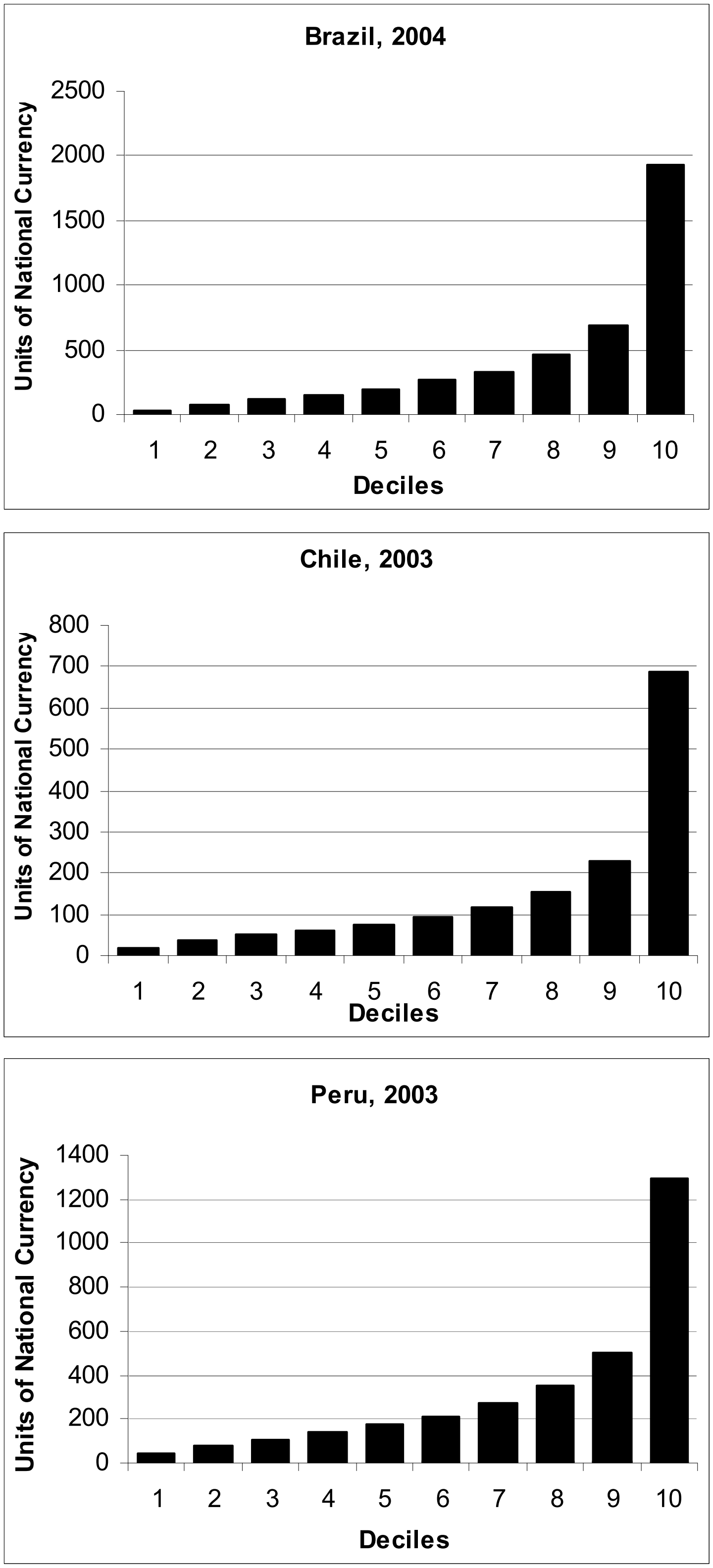
Region	Coefficient
OECD	0.321
Eastern Europe, Central Asia	0.335
South Asia	0.374
Middle East, North Africa	0.385
East Asia, Pacific	0.399
Sub-Saharan Africa	0.420
Latin America, Caribbean	0.521

Source: World Bank, World Development Indicators Database Online

*Latest year available by country/region.

The forces underpinning inequality as described are multiple and entrenched. A meaningful way to frame the analysis is with reference to the concept of social exclusion—the very antithesis of cohesion and trust. Exclusion is a multidimensional process that affects the "functionings" and well-being of individuals and groups and tends to reproduce itself through discrimination, via unresponsive institutions, and in the market place. Exclusion can be "structural" or dynamic in nature and subject to change, depending on processes and developments in governance, public policy, and the economic, social, and cultural spheres (IDB, 2007).

Figure 2. Income distributions by decile in Brazil, Chile, and Peru

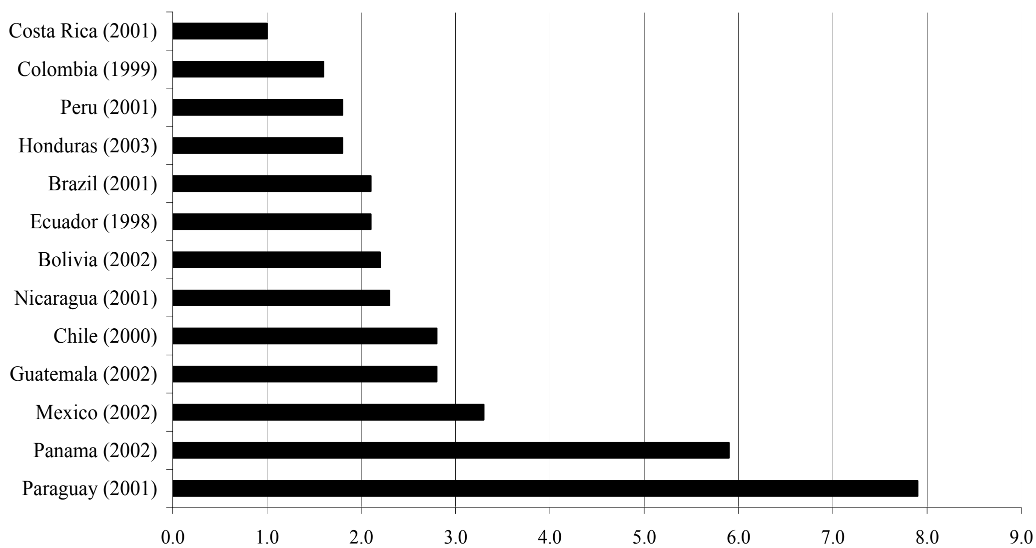


Source: Socioeconomic database for Latin America and the Caribbean (CEDLAS and World Bank) http://www.depeco.econo.unlp.edu.ar/cedlas/sedlac/ accessed 2007.

The "structural" view of exclusion links it to innate factors over which the excluded have little or no control, including particular ethnoracial origins and traits such as gender, age, physical ability, and place of residence (since poverty is often linked to geographic isolation).

Ethnoracial exclusion potentially affects a vast segment of the population of the region, including more than 40 million indigenous persons and approximately 150 million persons of African descent. As can be seen in Figure 3, in 12 of the 13 countries for which information is presented, the people of indigenous and African origin are overrepresented among the very poor. In seven countries, the incidence of extreme poverty among these groups is more than twice that in the rest of the population. According to the UN Development Programme (UNDP) *Human Development Report 2001*, in Brazil the total population in poverty declined by five million between 1992 and 2001, but among those of African descent, the number of persons living in poverty rose by 500,000. Unemployment is greater and wage levels are lower in this group than in the overall population, and, politically, the group is underrepresented.[5]

Figure 3. Incidence of extreme poverty among indigenous peoples and Afro-descendants as a multiple of the incidence in the rest of the population (poverty line of US$1 per capita per day)



Source: ECLAC (2005a).

Ethnoracial factors, therefore, are key traditional correlates of exclusion. To these must be added more recent, dynamic factors, including rapid economic change. Globalization can alter employment prospects in some industries and is not necessarily favorable to Latin America with its relatively high labor costs and low levels of technology, although demand for raw materials and energy, from China for example, does raise employment prospects in the corresponding sectors.

Labor markets have been an important source of fragmentation and exclusion in the past 15 to 20 years. Unemployment grew during this period, notably in the Southern Cone, Central America, and the Andean countries, whereas the average real wage tended to decline.[6] Wage disparities between workers of different educational backgrounds widened in the context of liberalization and technological change that

[5] For example, Brazilians of African descent account for 45 percent of the population, but in 1995–1999 they occupied only 15 seats in the national congress—an improvement over the previous period, when they occupied 4 seats, according to IDB data.

[6] Average wages (adjusted for purchasing power in U.S. dollars) remained constant or declined in most countries in the region in the 1990s, falling in Central America, the Andean region, and Mexico (Duryea, Jaramillo, and Pagés, 2003). The countries of the Southern Cone, in which the average wage increased, are also those where there were increases in unemployment.

accentuated the differences in relative demand for skilled and nonskilled workers. The percentage of workers who are paid "poverty wages" in the informal sector (US$1 per hour or less) is high, ranging from 40 percent in Chile, Costa Rica, Mexico, Panamá, and Uruguay to more than 70 percent in Central America and Bolivia (Duryea, Jaramillo, and Pagés, 2003). By contrast, in some settings in East and Southeast Asia during the same period, differences in wage levels fell in a context of much more dynamic growth (Avalos and Savvides, 2003).

The types of jobs that markets have created and the limited "labor market capability" of the large pool of people whose access to opportunities for human development is low have worked together to shift employment to unstable, low-productivity activities in the informal sector where workers lack health care coverage, social security, and job protection. The absence of economic security and the lack of control over events that shape individual welfare, in turn, can generate disaffection and the perception of unjust treatment, which can lead to violence and crime and, clearly, is not conducive to interpersonal trust (IDB, 2007).

The largeness of the informal sector in the region's economies implies that important parts of society are cut off from the mainstream, functioning outside the scope of official institutions and formal markets. People in this condition may seek refuge in niches that at times may operate like "independent nations" with their own territory, norms, and systems of government, as observed in some *favelas*. Informality as a source of exclusion is an intrinsic characteristic of these groups; their labor relationships, property and housing, marital arrangements, and, in the case of undocumented individuals, very existence are informal.

In this situation, the prospects and "satisfaction" of the majority whose incomes are in the lowest 70 to 80 percent of the distribution are highly constrained. Arguably, this is a source of disillusionment, darkening people's perception of their prospects for moving up.

Other considerations influence perceptions too. As is widely known, there is a gap between the citizens' lawful rights and the countries' de facto ability to deliver basic services and such goods as impartial justice (IDB, 2005b). The ideal is the often invoked, but in practice limited condition of representative democracy and transparent rules. The reality is often a state of opaque dealings involving special interests, hidden powers, and governments unable or unwilling to intervene. The "symbols" holding together the polity under these conditions are not conducive to cooperation, reciprocity, and respect from its citizens. They are damaging to social cohesion, which needs a normative framework that provides state accountability as well as citizens' equal rights, obligations, and opportunities.

Symptoms of low levels of solidarity and cohesion are found in fiscal policy and the tax systems of the region, which are weak relative to those of industrialized economies (Table 2). Whereas in a sample of large OECD countries public revenues amounted to some 37 percent of gross domestic product (GDP) in recent years, in Latin America they barely reached 20 percent. Latin American countries experience difficulty in raising revenue through income and property taxes, which are more progressive than indirect levies or taxes on goods and services. Income tax revenues as a share of GDP in Latin America are a third of the level recorded for G-7 countries, as seen in Table 2.

Table 2. Tax revenue (percentage of GDP)

	Total tax revenues	Income tax	Taxes on goods and services	Taxes on foreign trade	Social security contributions
LAC average	19.78	4.78	8.82	1.79	4.39
G-7 average	36.99	13.54	9.51	0.08	10.54

Source: International Monetary Fund (2001).

Taxes and transfers have a significant effect in lowering income inequality in the countries of the OECD, but in Latin America the redistributive effect of taxation is low—one reason Gini coefficients are high and "fiscal legitimacy" affecting fiscal performance and democratic governance is an issue (OECD, 2007). Taxes and transfers are factors in a cycle in which low revenue can lead to fiscal mismanagement, weak spending institutions, and low quality services that in turn spawn dissatisfaction and may underpin the reported low level of trust in public institutions. Low trust in public institutions and dissatisfaction with the efficacy of public services, in turn, reduces tax morale and depresses tax collection.

Latin America, as is widely known, has made important strides in many aspects of development in recent decades. Significant advances have occurred in macroeconomic and price stability and the public economic institutions; sector policies and rule reformation; and, more recently, in economic growth and poverty reduction (2007 was the fifth consecutive year with rising per capita growth). National poverty lines suggest that the UN goal of halving by 2015 (relative to 1990) the proportion of people living in extreme poverty may be achieved for the region as a whole and has already been met in Chile and Brazil (ECLAC, 2007b; Ferroni, 2007).[7]

The counterpoint to this situation is the reality of continued major challenges as well as shortfalls relative to Asian comparators, where savings, investment, and growth are much higher, as are poverty reduction rates (starting from higher initial levels of poverty) and progress toward the identified UN goal. The task, clearly, is to reduce inequality and exclusion, foment participatory and inclusive patterns of development and growth, and create conditions whereby growth reduces poverty more rapidly. The analysis below suggests that greater interpersonal trust and cohesion may help.

[7] According to the most recent projections available and using national poverty lines, the "poverty" Millennium Development Goal ("MDG1") seems reachable in 9 out of 17 countries analyzed (ECLAC, 2007b). There remains, therefore, a group of poorer countries that have not yet been able to place themselves on the virtuous development path that is needed for poverty reduction at the rate implied by the Goal.

4. MEASURING SOCIAL COHESION

The literature on social cohesion (and social capital) offers a variety of potential definitions and indicators for measuring the concepts, as seen above.[8] Our approach in this section is to construct an index of social cohesion that incorporates measures of social capital and the distribution of opportunities that conform reasonably well to our definition of these concepts and for which we are able to find data for Latin America.

The two dimensions of social capital and the distribution of opportunities are in line with the definition of social cohesion set forth above: *a capacity for cooperation and solidarity in society based on an equitable distribution of opportunities to participate in economic, social, and political life, as well as trust in societal rules, institutions, and fellow citizens*. In the composite index that we propose, each of the two dimensions is measured by several variables, assessed in the form of either perceptions or hard data, as indicated in Table 3.

Table 3. Components of the social cohesion index

Social Cohesion	Social Capital	Compliance with the law
		Interpersonal trust
		Trust in public institutions
	Distribution of Opportunities	Poverty incidence
		Income Gini coefficient
		Size of the middle class
		Education Gini coefficient
		Intergenerational mobility

Source: Authors' compilation.

The *social capital* dimension is composed of three indices that are believed to influence the capacity for cooperation at the macro and micro level: *compliance with the law*, *interpersonal trust*, and *trust in institutions*. When citizens place trust in the law and established public institutions, they are inclined to articulate their demands through formal institutions and to allow institutions and the law to mediate disagreements. They also trust public institutions to adopt policy solutions to pressing social problems.

Conversely, when citizens fail to trust other citizens and rules and institutions, they are more readily inclined toward conflict, are less disposed to accept shared sacrifice, and have greater difficulty in reaching the agreements necessary to increase the supply of public goods. In addition, when interpersonal trust and trust in laws and institutions are weak, transaction costs are likely to be high and spontaneous cooperation relatively uncommon. We attempt to capture these effects with the elements of the social capital dimension of the index of social cohesion.

[8] On social capital, for example, see Rothstein and Stolle (2002) and Rosemberg (1956) for generalized measures of trust. A case of widespread use and replication of trust is Putnam's index of "civicness." In *Making Democracy Work*, Putnam et al. (1993) use four indicators to measure the strength of civic involvement: associational life (number of voluntary organizations), incidence of newspaper readership, voter turnout at referenda, and the size of preference votes at elections. In *Bowling Alone*, Putnam (2000) introduces a composite index measuring the degree of people's involvement in a range of civic and political activities, such as voter participation, involvement in civic groups and associations, participation in religious organizations, and philanthropy. Knack and Keefer (1997) use two indices to measure social capital: CIVIC, which tries to capture the level of civic cooperation, and TRUST, which is Rosemberg's measure. Narayan and Pritchett (1999) calculate the social capital index as a weighted average of answers to questions measuring membership in various groups, the characteristics of these groups, and general trust-related attitudes.

We construct each of the measures for the social capital dimension on the basis of responses to the Latinobarómetro survey, which is administered annually in the 18 Latin American countries covered by the social cohesion index presented in this paper. We measure compliance with the law based on responses to the following question: "Would you say that (nationality, e.g., Chileans) comply with the law: very much, to a fair degree, seldom, or not at all?"[9] We measure interpersonal trust based on responses to the question examined in Figure 1 above: "Generally speaking, would you say that you can trust the majority of people or that one can never be too careful in dealing with others?" The trust in institutions index is an average of the responses to questions probing respondents' level of confidence in the judiciary, congress, political parties, public administration, and the police.

The *distribution of opportunities* dimension focuses on structural socioeconomic conditions that affect citizens' ability to enjoy opportunities in the economic, social, and political spheres. This subdimension of the social cohesion index contains five indicators, which gauge the extent of social exclusion, the likelihood of social cooperation and/or social polarization (divisions between groups) and conflict, and the extent of opportunities for advancement. The indicators are the *poverty incidence*, the *income Gini coefficient*, the *size of the middle class*, the *educational Gini coefficient*, and *intergenerational mobility*.

We measure the poverty incidence as the percentage of the population below the national poverty line. The larger the share of the poor in the population, the greater the hypothesized extent of exclusion and risk of alienation and polarization.

Two other indicators of the distribution of opportunities dimension are the income Gini coefficient and the education Gini coefficient. High levels of poverty and income and educational inequalities imply low levels of integration for a large share of the population and greater risks of conflict in determining the allocation of public expenditures and the tax burden and the distribution of economic assets.

A fourth indicator is the size of the middle class. We measure this by determining the share of total income earned by the income deciles 3, 4, 5, 6, and 7. As suggested by Easterly (2001), a larger middle class is expected to increase the possibilities for societal cooperation in the provision of private and public goods, raise the scope for investment in human capital, and lessen the likelihood of distributional conflict and instability.

The final indicator of the distribution of opportunities dimension is a measure of intergenerational mobility, or the extent to which children have the opportunity to achieve a higher socioeconomic status than their parents did. The measure, calculated in Behrman, Gaviria, and Székely (2001), uses household survey data to estimate the average correlation among siblings of an index of educational attainment that is calculated based on whether children are above or below the median schooling of their age cohort. A higher degree of correlation of this index among siblings is taken to imply greater influence of parental education on the education of children and lower levels of intergenerational mobility.

Our effort in developing the index of social cohesion complements work undertaken by Jarque, Mejía, and Luengas (2005), who developed an index based on four components (poverty, equality of opportunities, exclusion, and solidarity) that have much in common with what we propose. A central aspect of the work of the cited authors was the desire to study the evolution of their index over time. They thus worked with objective and "hard" data that are available for multiple points in time. Our index, in turn, sets forth a more complete definition of social cohesion, the underlying conceptual dimensions of which are difficult to capture using available objective indicators alone. Thus, our index also uses perception data from surveys of public opinion and business executives to approximate the measurement of the concepts that we define. Despite the differences in the specification of the two indices, the correlation between them is high (.78); the ordering of the countries according to each of them is similar, though not identical; and the correlations with the development indicators (as presented in the next section) are comparable.

[9] For a more complete description of the indicators used in the construction of the social cohesion index, see Appendix A.

In calculating the social cohesion index, once the raw values were obtained from their sources (see Appendix A), the intermediate variables were standardized on a scale of 0 to 1, based on the minimum and maximum theoretical values of each variable ($x - min/max - min$). After the variables were standardized, in those instances in which higher values of the variables signified less rather than more social cohesion, the normalized values were inverted ($1 - x$). Further, after we standardized the variables, we calculated the values of the two subindices, taking the average of the combined values for the variables. We calculated the social cohesion index as the average of the combined values of the two subindices.

The hypothetical value of the social cohesion index and of each of its four subindex components ranges between 0 and 1. We used the most recent observations for the years 2001–2005 and, in line with our definition of social cohesion, attributed the same weight to each component. Thus, we indirectly weighted the individual indicators because whereas five indicators were used for the distribution of opportunities component, only three were used for the social capital component.

The index should be considered an exploratory exercise. An ideal approach to developing an index of social cohesion would require an unambiguous definition, a theory that provides a basis for linking individual dimensions to the broader concept, and conceptually valid and reliable indicators for each of the dimensions. The second and third of these requirements cannot be fully met because of limitations in the available data[10] and in the empirical and theoretical knowledge with respect to the relative weight and interactions between the different components. Future efforts in building an index of social cohesion should be oriented in three directions in our view: (i) reflection at the conceptual level with regard to the structure and weighting of the subdimensions and indicators; (ii) the development of conceptually valid and reliable indicators that permit a more precise measurement of each one of the dimensions; and (iii) the validation of the index by extending the sample of countries to other regions of the world and producing the index for multiple points in time.

[10] For example, it would be expected that the opportunities dimension of the social cohesion index is affected by individual and group characteristics such as race, ethnicity, religious affiliation, gender, and family origins. Many of the available proxies for some of these traits, such as the degree of ethnolinguistic fragmentation, however, are of questionable validity and reliability and thus have not been used in the present exercise. First, the measures that have been used in previous empirical studies are now out of date and of doubtful accuracy, given Latin America's considerable demographic changes in the past decades. Second, if a measure related to discrimination and exclusion based on ethnolinguistic background were to be included, it would need to be more subtle than one focused solely on the ethnic composition of the population. To reflect the degree of exclusion, it would need to account for the extent to which such distinctions are in fact correlated with disadvantages with respect to education, income, employment, and distrust between persons. Otherwise, the index would risk being overly deterministic, presuming that societies with comparatively high degrees of ethnic fragmentation are doomed to be noncohesive. The index would have to allow for the possibility that higher levels of integration and inclusion could be fostered through the efforts of civil society or public action (e.g., by ending legal discrimination, by affirmative action policies, and by progressive public spending on education, health care, and social protection).

5. SOCIAL COHESION AND DEVELOPMENT OUTCOMES

In this section, we use the social cohesion index to examine the degree to which social cohesion is connected with the capacity of countries to promote economic growth, apply new technologies, implement effective development policies, and maintain a stable and predictable political and policy environment. The analysis is limited to bivariate correlations, thus it points only to associations rather than demonstrating causal relationships.

Relatively few empirical studies have examined the relationship between the broad concept of social cohesion and development outcomes. However, a fairly large number of studies have investigated the effects on development of related concepts and measures, such as social capital, inequality, ethnolinguistic fractionalization, crime and violence, and political instability and social conflict.

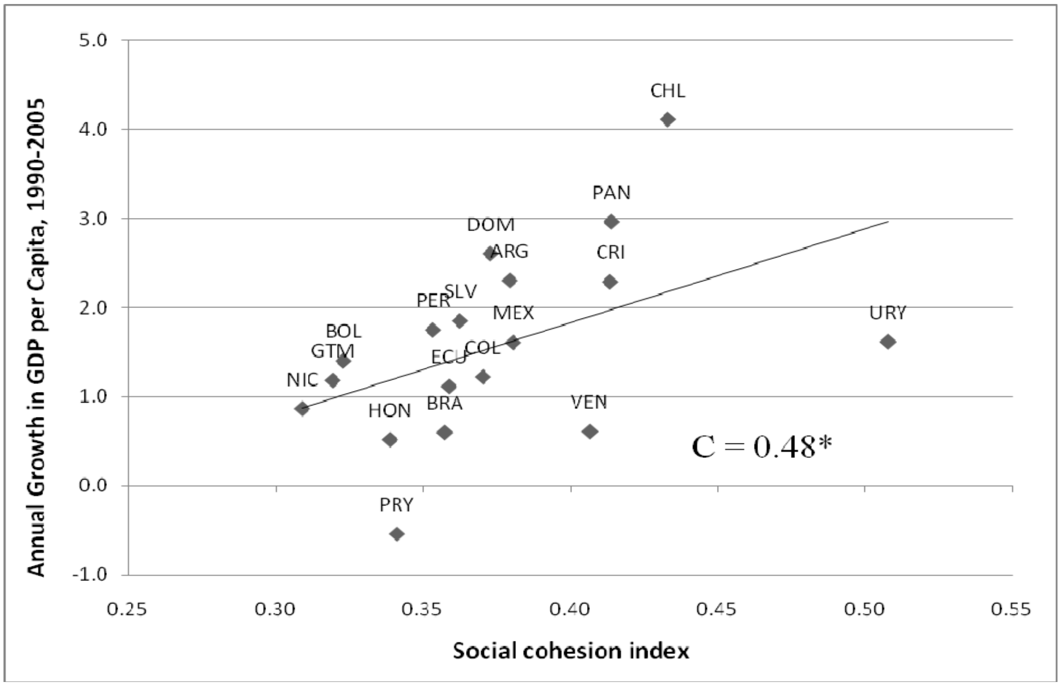
Putnam and colleagues' influential work examining the effects of social networks, norms, and trust on the effectiveness of local government and economic performance in regions of Italy (Helliwell and Putnam, 1995; Putnam, Leonardi, and Nanetti, 1993) has fueled recent interest in the development significance of social capital. This research, and other studies building upon it, hypothesized that higher levels of trust and stronger civic values contribute to higher rates of growth by lowering transaction costs (as noted earlier), increasing trust in government, raising investment rates, making government more efficient in providing public services, increasing cooperation in the provision of public goods, and enhancing governmental accountability.

Several cross-national empirical studies have found social capital variables to have a positive influence on economic growth and related development outcomes (Helliwell, 1996a, 1996b; Knack, 2000, 2001; Knack and Keefer, 1997; La Porta et al., 1999; Putnam, 2000; Zak and Knack, 2001). For instance, Steve Knack and Philip Keefer (1997), in their cross-national study of 29 advanced and developing economies, found a positive link between interpersonal trust and economic performance as well as between trust and indicators of governmental efficiency and corruption. Working with a larger sample of countries, Paul Zak and Knack (2001) found that the association with growth became substantially more robust to changes in time period and in the specification of control variables. But, other studies, using different samples, some restricted to OECD countries and Asian economies (Helliwell, 1996a; Knack, 2001) and others restricted to Canadian provinces and U.S. states (Helliwell, 1996b), failed to find a relationship between trust and/or group membership and economic growth. On the whole, there is some empirical support for an association between social capital and growth when social capital is operationalized in terms of measures of trust and civic values, but not when organizational membership is used (Knack, 2001).

The second dimension of the social cohesion index—equality in the distribution of opportunities—has also been linked to economic performance. Several different channels of influence of inequality on growth have been examined, including increased pressures to adopt redistributive and economically inefficient fiscal policies (Alesina and Perotti, 1994; Alesina and Rodrik, 1994; Bertola, 1993; Persson and Tabellini, 1994), increased sociopolitical instability (Alesina and Perotti, 1994; Perotti, 1996), lower rates of individual investment (Perotti, 1994), lower domestic demand (Murphy, Shleifer, and Vishny, 1989), greater incentives to engage in rent-seeking activities (Ben-Habib and Rustichini, 1991; Fay, 1993), more uncertain property rights (Keefer and Knack, 2002), and weaker institutions (Easterly, Ritzen, and Woolcock, 2005). Based on these studies, empirical evidence appears to lend greatest support to inequality's effects on growth being channeled through higher levels of political instability, lower rates of investment, higher levels of rent seeking, and lower cooperation in the provision of public goods (Clarke, 1995; Easterly and Rebelo, 1993).

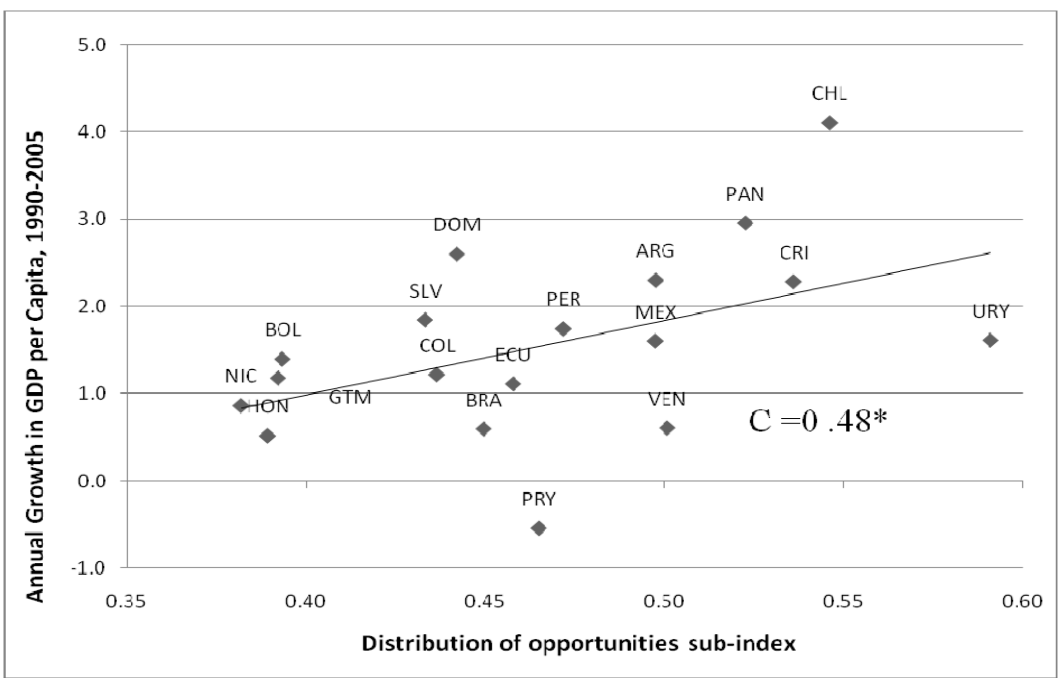
Drawing on our index of social cohesion and focusing on a sample of 18 Latin American countries, we find that the rate of per capita economic growth between 1990 and 2005 has tended to be higher in those countries with larger values on the social cohesion index (Figure 4). The correlation is 0.48 and is significant at the 0.05 level. Between the two dimensions of the index, the distribution of opportunities subindex appears to be more closely associated with growth performance (0.48 and significant at 0.05 level). The social capital index, by itself, is positively correlated with growth (0.38); but, at least for this 18-country sample, the relationship is not statistically significant (Figures 5 and 6).

Figure 4. Growth versus social cohesion



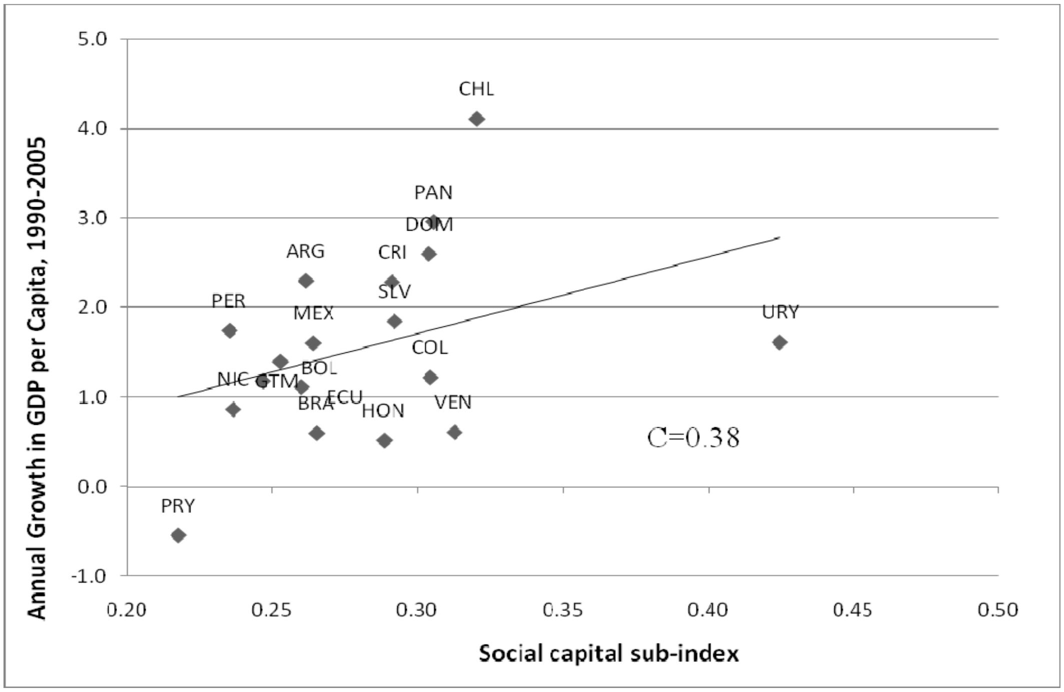
Source: Authors' compilation. Growth figures calculated from World Bank, World Development Indicators.
*Correlation is significant at the 0.05 level.

Figure 5. Growth versus distribution of opportunities subindex



Source: Authors' compilation. Growth figures calculated from World Bank, World Development Indicators.
*Correlation is significant at the 0.05 level.

Figure 6. Growth versus social capital subindex



Source: Authors' compilation. Growth figures calculated from World Bank, World Development Indicators. Correlation is not significant.

Social cohesion may not only contribute to higher growth rates, it also is likely to affect the sustainability of growth in the face of external shocks and the duration and social impact of economic downturns. In addition to the importance of human capital, which is captured in the first component of the social cohesion index, social capital is key—and, in this respect, civil society, political participation, and trust in public institutions are vital. In times of crisis the capacity of society to organize itself (on the basis of high levels of social capital) produces externalities that can be essential for attending to the basic needs of the population and favors the chances of an economic recovery.[11] Lower levels of societal polarization and higher levels of social solidarity and trust in representative institutions lower the risk of distributive struggles and increase the possibility that social groups will reach agreement on sharing the costs of policy adjustment, thereby making a soft landing more probable (Rodrik, 1999).

There may be a channel between social cohesion and growth in that social cohesion increases the capacity of societies to incorporate and develop new technologies in the production of economic goods and services. Cohesive and trusting societies provide broader opportunities for advanced education, higher-quality schools, and greater incentives for individual investment in developing job skills. In addition, as seen above, to the extent that social cohesion lowers policy uncertainty, reduces economic volatility, and enhances the security of intellectual and physical property, it is also likely to foster higher rates of foreign investment and overall investment in new technologies.

In fact, an index of technological innovation[12] (one of the subindices of the Global Competiveness Index published in the World Economic Forum's *Global Competitiveness Report*), appears to be higher in those countries with higher levels of social cohesion (Figure 7). If social cohesion contributes to better investment in human capital, higher levels of foreign investment, more efficient incorporation of technological advances, and the growth of research and development capabilities, it also

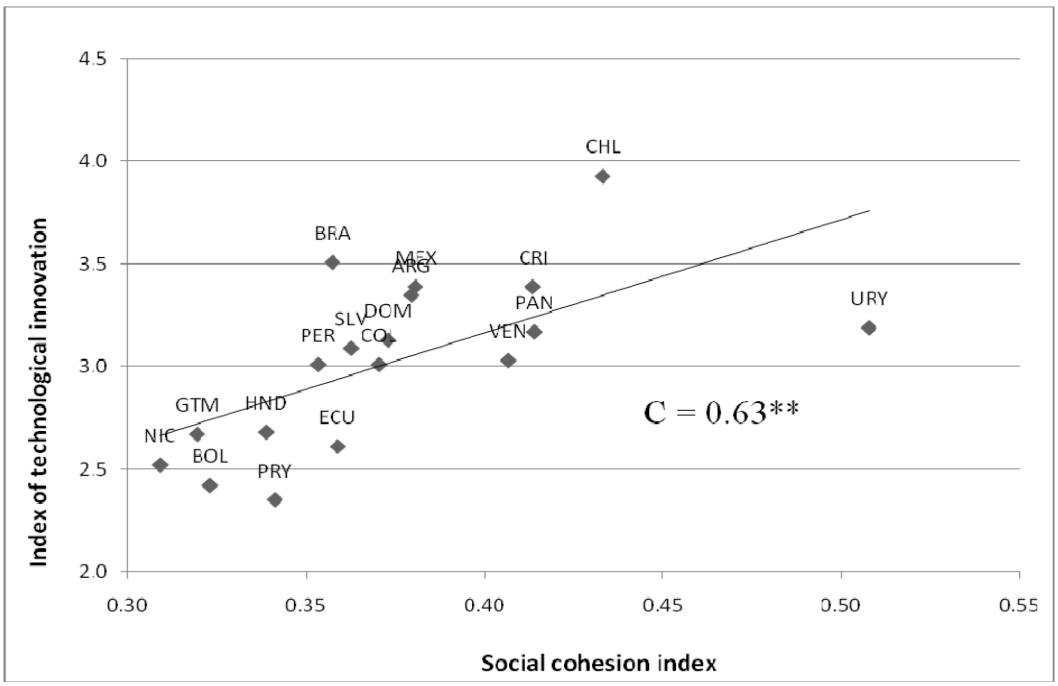
[11] See Kliksberg (2006) for an analysis of the role of volunteer action.

[12] This index aggregates measures assessing countries' innovative capacity, capacity to absorb technology transfers, and level of communication technology. For more information, see Appendix A.

will tend to promote greater responsiveness to the demands and opportunities of an increasingly knowledge-based global economy. The role of social cohesion during periods of technological transformation has been highlighted by Lundvall (2002), for example, who (for the case of Denmark) shows the value of cohesion in fostering interactive learning and linking workers to competence building in "innovation friendly" environments. The distribution of opportunities subindex is also highly correlated with the technology index (0.66). The social capital subindex is positively correlated with this index, but in this case the relationship is significant at only the 0.10 level (Figures 8 and 9).

The lower capacity for technological innovation in Latin America is evident from the fact that the proportion of researchers in the workforce is significantly lower in Latin America than it is in more advanced countries. The available data also show that this gap is growing. The number of researchers per thousand persons in the economically active population increased less than 10 percent between 1995 and 2003. In the same period, the rate of increase was more than 20 percent in developed countries. In China, the number of researchers is growing three times faster than the labor force as a whole (IDB, 2006).

Figure 7. Technological innovation capacity versus social cohesion

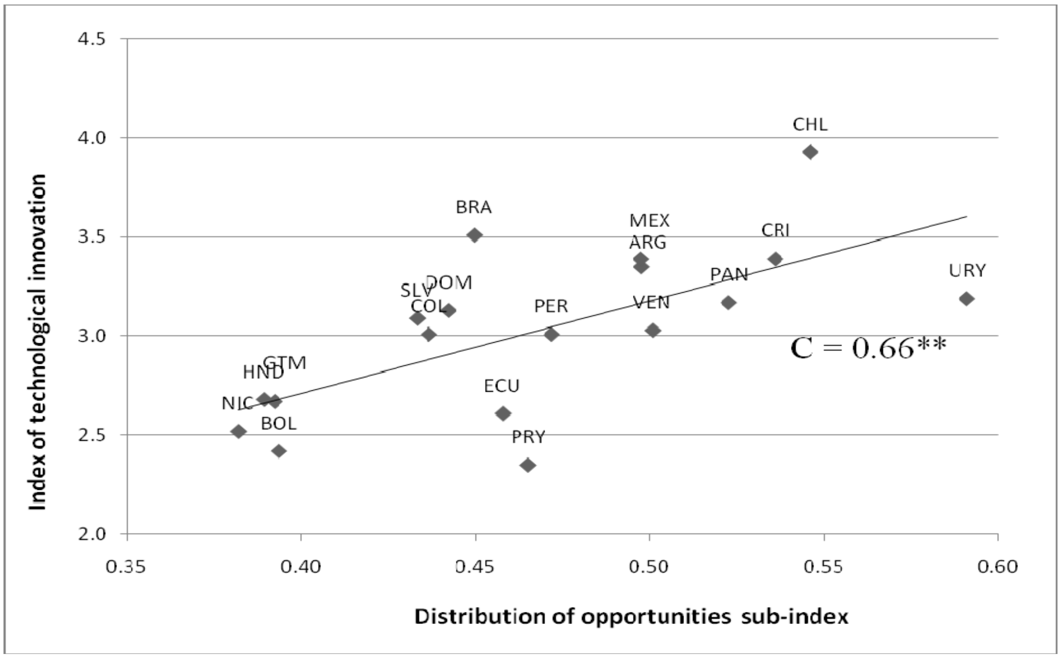


Source: Authors' compilation. Index of technological innovation from World Economic Forum (2006).
**Correlation is significant at the 0.01 level.

In contrast to more advanced countries, where the majority of researchers work in the private sector, in Latin America they are employed mainly by universities and public institutes. However, in Brazil and Mexico, for example, the proportion of researchers employed by the private sector is rising rapidly. The level of investment in research and development (as a percentage of GDP) also increased in these two countries. In Brazil, for instance, investment in research and development is approximately 1 percent of GDP. This contrasts with the declining trend observed for most countries in the region.

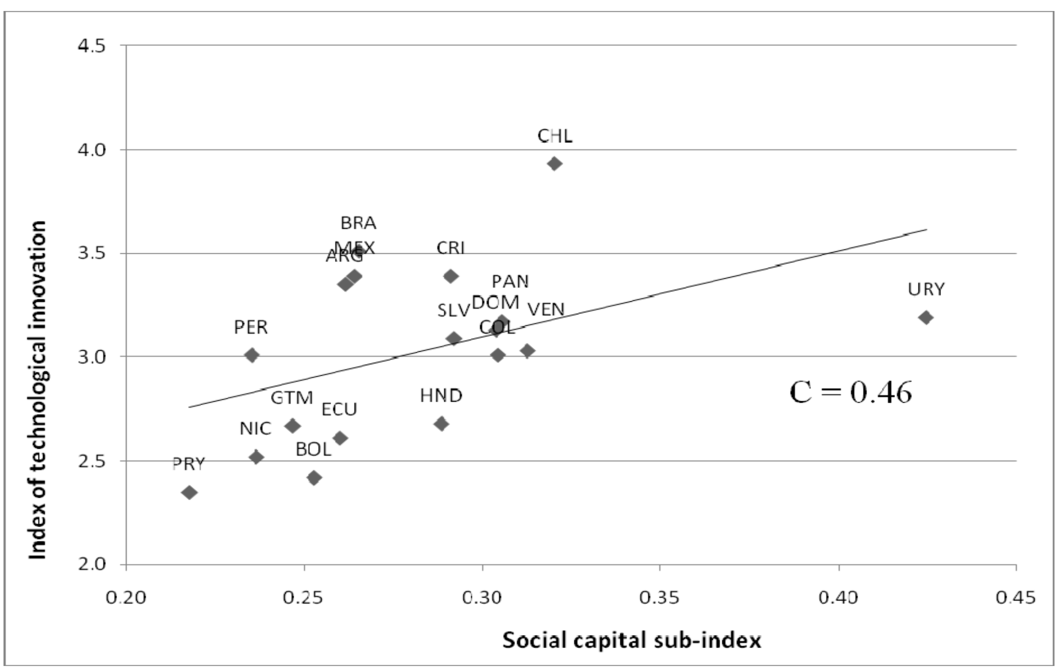
As previous studies have demonstrated, high levels of social cohesion should also be reflected in the greater efficiency of government institutions and policymaking processes. More trusting and associative societies are also likely to have public institutions that are more effective because they will tend to be characterized by higher levels of political participation, stronger norms of civic cooperation, and more efficient vertical accountability mechanisms. Fragmented societies characterized by internal divisions and low levels of trust face larger constraints on government decision making than do more cohesive societies. When there is a multiplicity of groups with sharply conflicting interests seeking to influence public policy and public institutions for their own benefit, transaction costs are increased, rent-seeking behaviors become more prevalent, and governmental institutions are likely to be less efficient.

Figure 8. Technological innovation capacity versus distribution of opportunities subindex



Source: Authors' compilation. Index of technological innovation from World Economic Forum (2006).
**Correlation is significant at the 0.01 level.

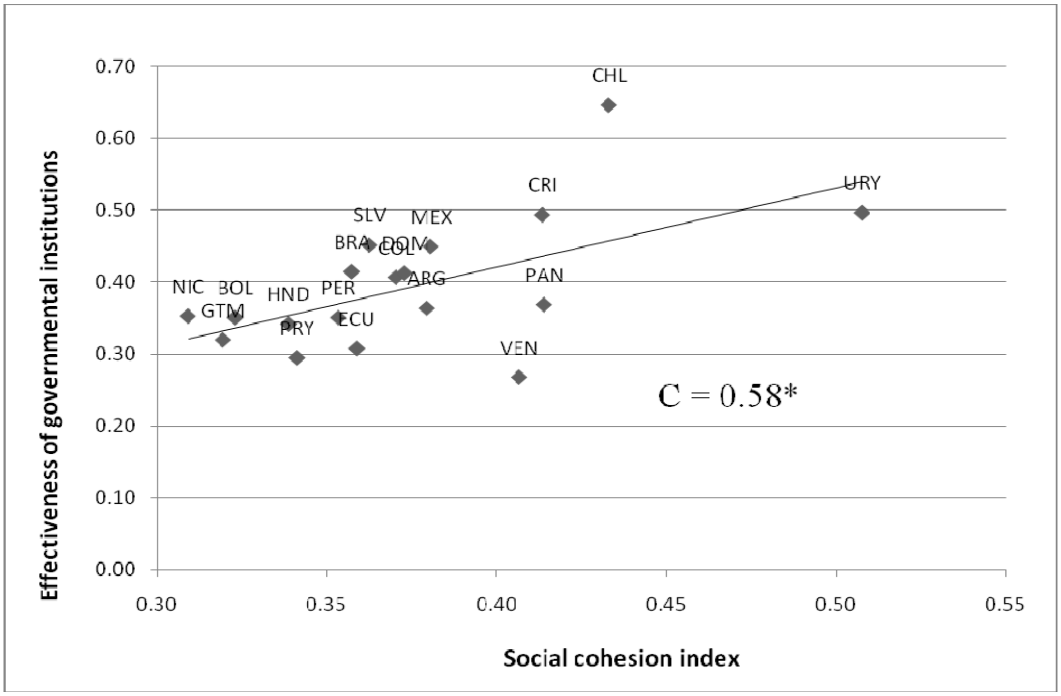
Figure 9. Technological innovation capacity versus social capital subindex



Source: Authors' compilation. Index of technological innovation from World Economic Forum (2006).
Correlation is not significant.

We find an aggregate measure of the effectiveness of governmental institutions to be closely correlated with the social cohesion index (Figure 10). The social capital and distribution of opportunities subindices are associated in the same degree as the overall social cohesion index with this measure of governmental effectiveness (Figures 11 and 12).

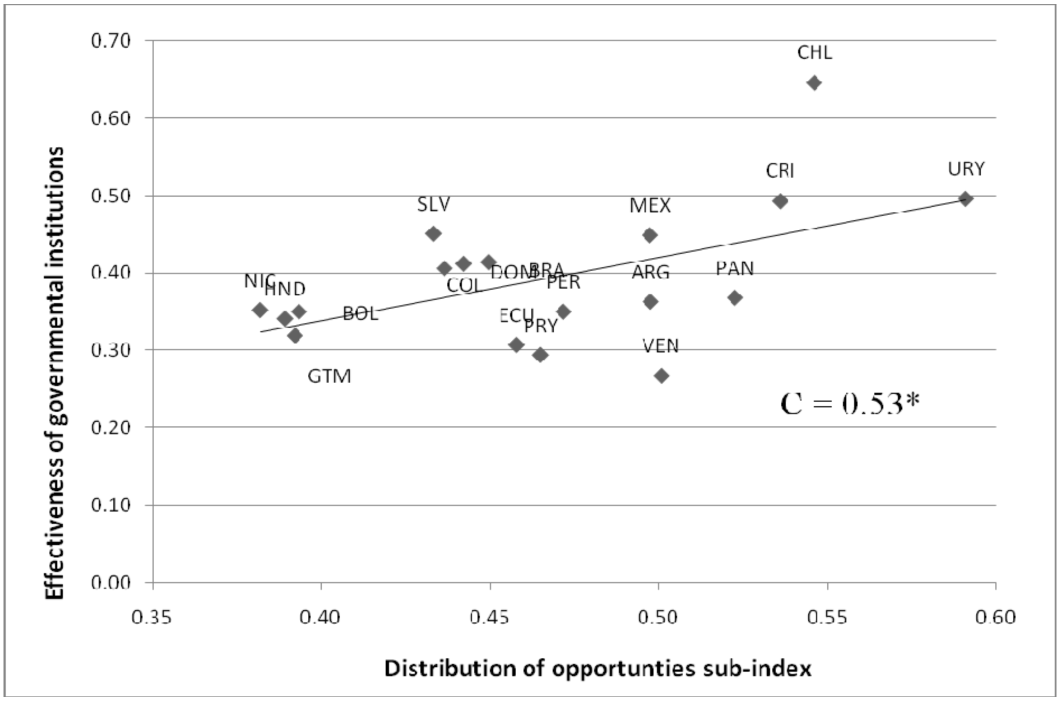
Figure 10. Effectiveness of governmental institutions versus social cohesion



Source: Authors' compilation. Authors compiled the index of effectiveness of governmental institutions on the basis of data from IDB (2005b), Kaufmann, Kraay, and Mastruzzi (2003), and Latinobarómetro (2006).

*Correlation is significant at the 0.05 level.

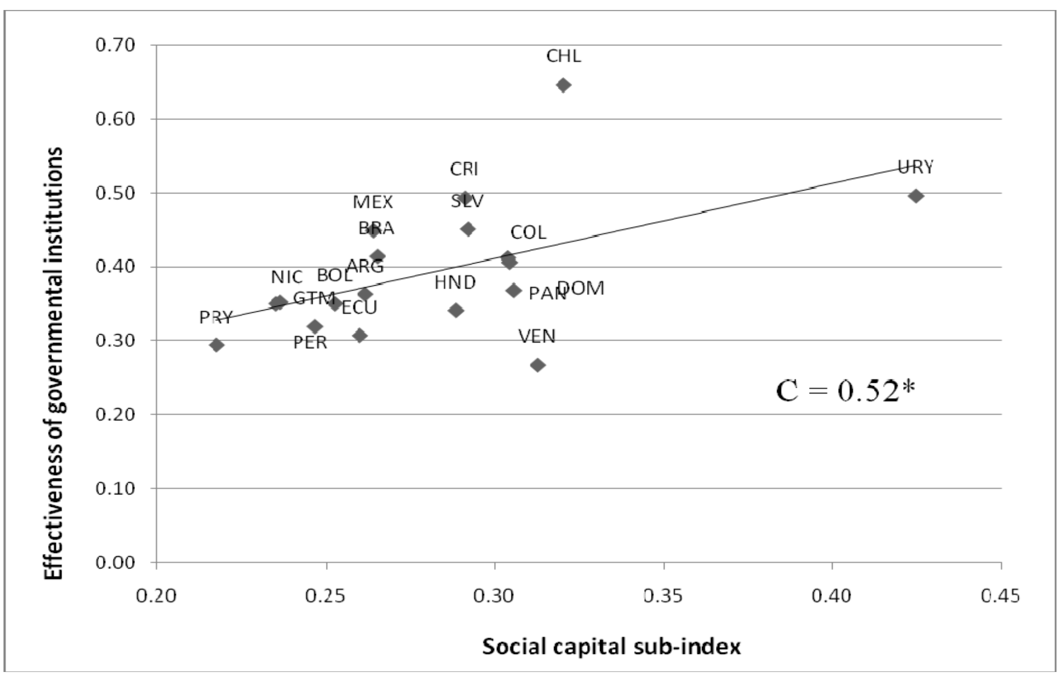
Figure 11. Effectiveness of governmental institutions versus distribution of opportunities subindex



Source: Authors' compilation. Index of effectiveness of governmental institutions compiled by authors on the basis of data from Kaufmann, Kraay, and Mastruzzi (2003), IDB (2005b), and Latinobarómetro (2006).

*Correlation is significant at the 0.05 level

Figure 12. Effectiveness of governmental institutions versus social capital subindex



Source: Authors' compilation. Authors compiled the index of effectiveness of governmental institutions on the basis of data from IDB (2005b), and Kaufmann, Kraay, and Mastruzzi (2003), Latinobarómetro (2006).

*Correlation is significant at the 0.05 level.

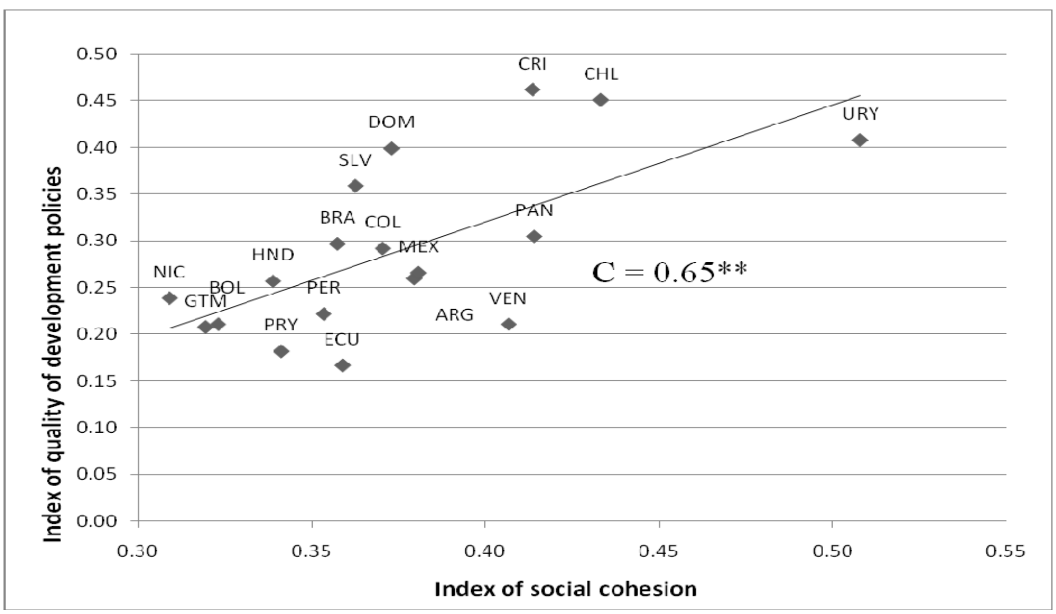
Ineffective institutions and inefficient decision making often result in poor quality development policies. Regardless of its particular contents, for a public policy to be effective it must meet a number of requirements (IDB, 2005b). Policy must (1) be stable, meaning it must be consistent over time; (2) be flexible enough to adjust to shifting contexts; (3) be designed in a way that considers implementation requirements and is consistent with other policies in the same area; (4) be implemented effectively; (5) serve general public interests; and (6) be efficient with respect to the allocation of resources; often how much is spent is less important than how the spending is done.

For these requirements to be met, the persons involved in making decisions must be able to reach intertemporal agreements on the core elements of state policy. Intertemporality depends on reasonable stability in the identification of a country's development objectives, which hinges on the absence of frequent and dramatic changes in the composition of the government and the congress and a limited degree of social and political polarization. Obtaining durable agreements requires a considerable capacity to forge consensus, which is facilitated when the elements of society feel that they belong to the same community; that is, when society is cohesive.

The implementation of public policies and the advance of a country toward higher levels of well-being require the country to be able not only to generate resources but also to spend them efficiently. Limitations with respect to budgetary policymaking and management are among the most important constraints faced by low- and middle-income countries. Revenues collected by many countries are low, and a significant share of revenues is typically allocated inefficiently, either due to inefficient administrative structures, poor policy design, or poor implementation, or due to diverting resources to other purposes. Fragmented societies whose citizens have low levels of trust are more prone to competitive rent seeking given the greater focus on group interests than on common interests and the weakness of civic norms and vertical accountability as constraints on opportunistic behavior.

Thus, we find that levels of social cohesion are associated with an index of the quality of development policies, comprising measures of the efficiency of public policies and the extensiveness of governmental corruption (Figure 13). This index is highly correlated with both subindices of the social cohesion index, supporting the notion that both social polarization and weak norms of civic cooperation have a negative impact on the quality of public policies (Figures 14 and 15).

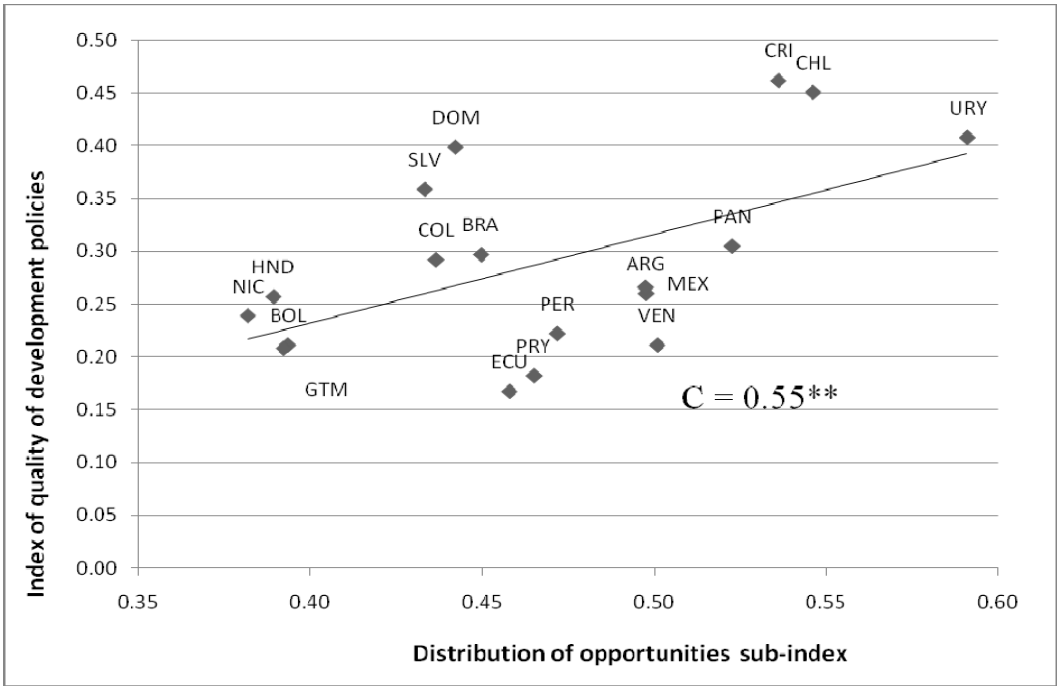
Figure 13. Quality of development policies versus social cohesion



Source: Authors' compilation. Index of quality of development policies compiled by the authors on the basis of data from Kaufmann, Kraay, and Mastruzzi (2003), Latinobarómetro (2006), and World Economic Forum (2006).

**Correlation is significant at the 0.01 level.

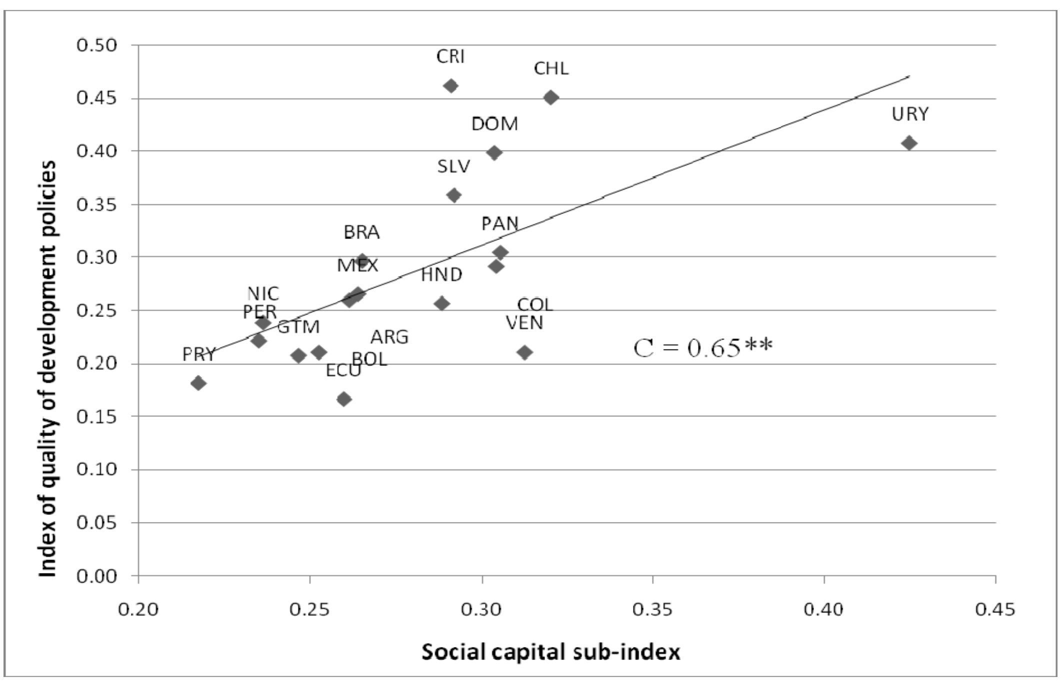
Figure 14. Quality of development policies versus distribution of opportunities subindex



Source: Authors' compilation. Index of quality of development policies compiled by the authors on the basis of data from Kaufmann, Kraay, and Mastruzzi (2003), Latinobarómetro (2006), and World Economic Forum (2006).

**Correlation is significant at the 0.01 level.

Figure 15. Quality of development policies versus social capital subindex



Source: Authors' compilation. Index of the quality of development policies compiled by the authors on the basis of data from Kaufmann, Kraay, and Mastruzzi (2003), Latinobarómetro (2006), and World Economic Forum (2006).

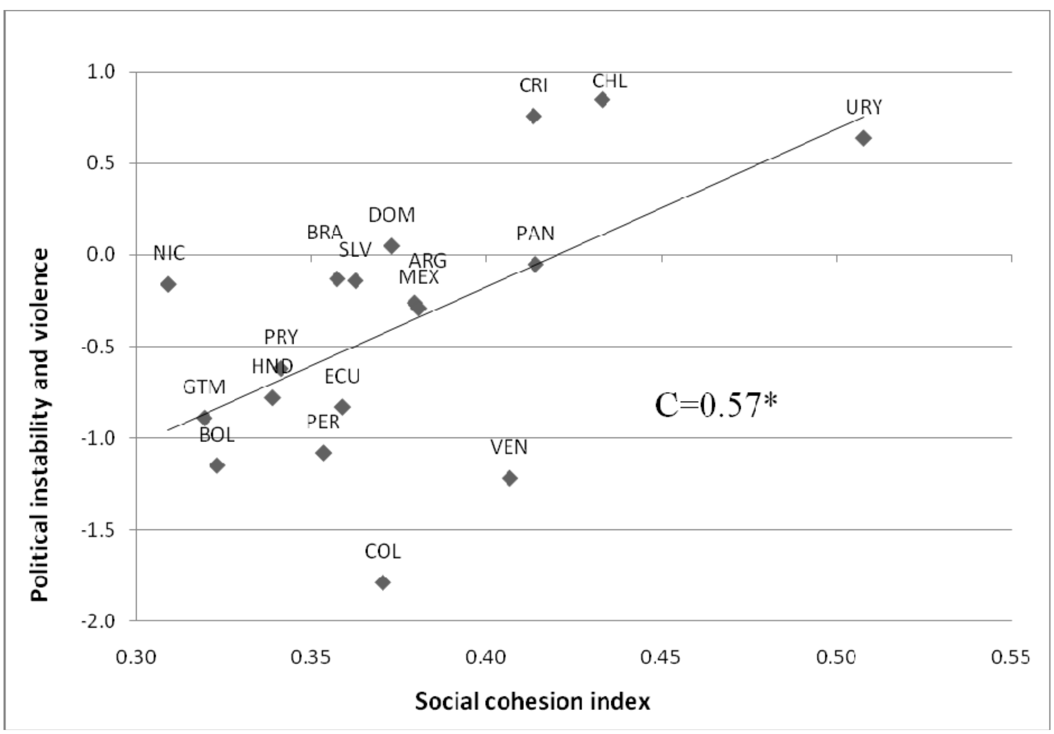
*Correlation is significant at the 0.01 level.

Taxation is one area that the extent of social cohesion is likely to affect, as discussed earlier. The willingness to pay taxes depends considerably on the benefits that people expect to receive in return and the strength of ties to the community. Citizens of countries with high levels of social cohesion are likely to be more willing to contribute to the common pool of public resources, since they expect to share in the benefits of public programs and investments funded by them and because they feel a sense of obligation to the community in which they live. In weakly cohesive societies, taxpayers may resent the situation whereby an important share of public resources goes to groups with which they do not identify.

High-quality public policies require technical agencies that are able to design and properly implement policy decisions. This capability implies an independent and professional civil service in which civil servants are hired and promoted on the basis of merit rather than partisan political connections. Only in this context can an effective and neutral public administration be ensured. An active and organized citizenry that raises the demand for effective government can facilitate the transition toward a more professional bureaucracy.

Another potential channel between social cohesion and growth is political instability and social conflict. Some empirical studies have shown a positive association between economic and social inequality and distributional conflict and political instability, which in turn affects growth (Alesina and Perotti, 1996; Perotti, 1996). Political instability negatively affects the predictability of the policy environment, the rate and quality of investment, the time horizons of political actors, and the sustainability of public policies. We find that an index of political stability and violence is closely associated with the social cohesion index as well as with the distribution of opportunities subindex (Figures 16 and 17). In the case of the social capital subindex, the correlation is not statistically significant (only significant at the 0.10 level) (Figure 18).

Figure 16. Political stability versus social cohesion

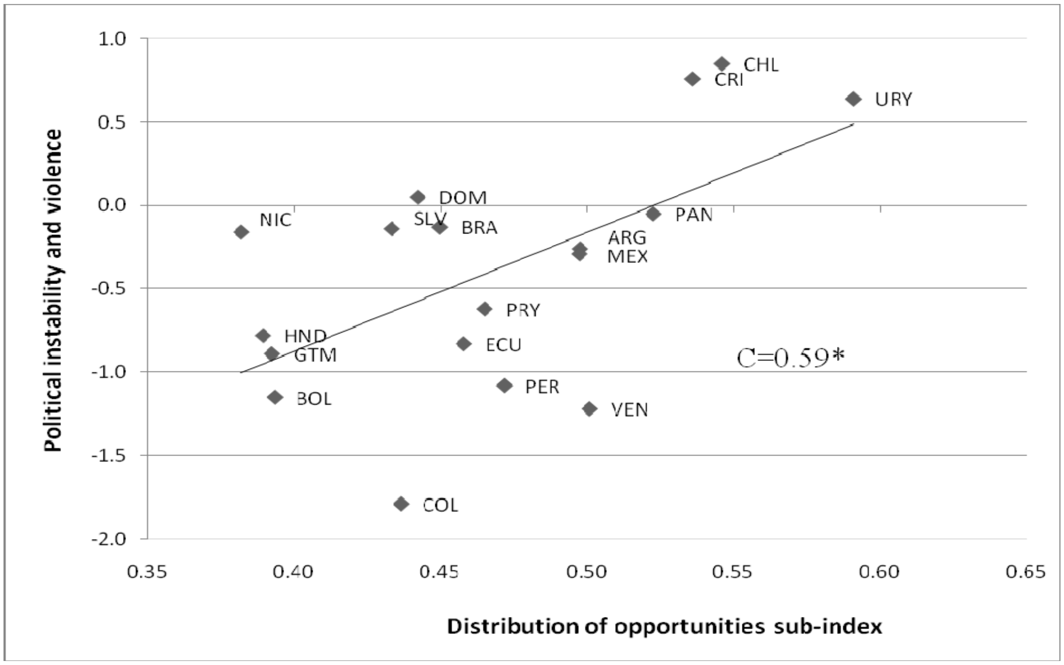


Source: Authors' compilation. Index of political stability and violence from Kaufmann, Kraay, and Mastruzzi (2003).

Note: Higher scores on the index of political instability and violence imply lower levels of instability and violence.

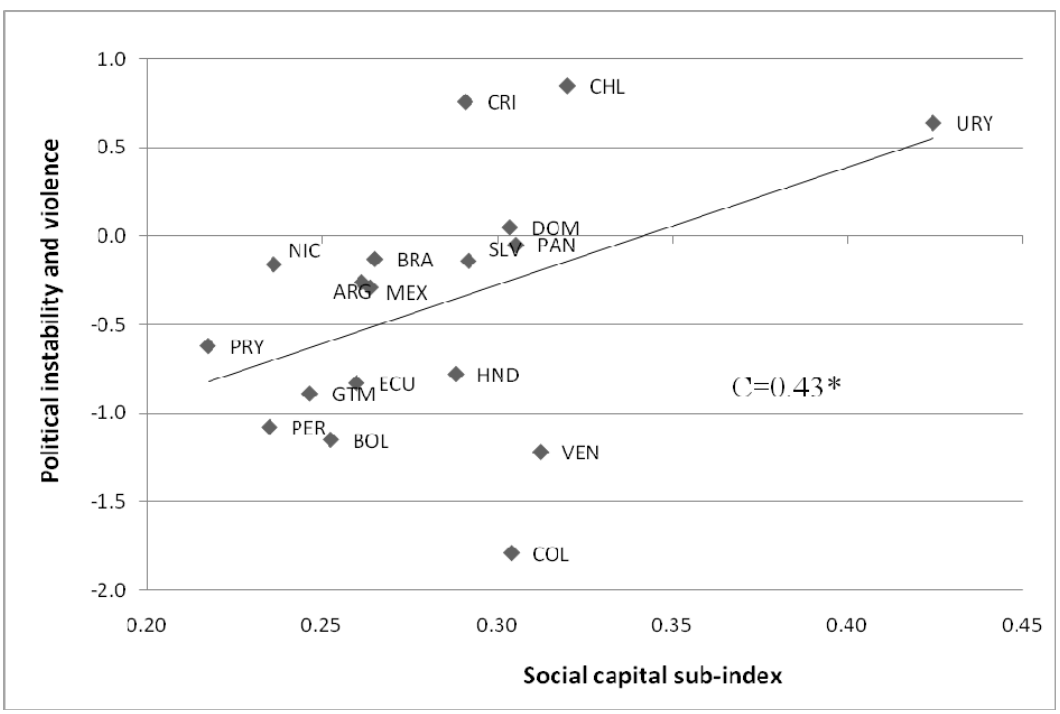
*Correlation is significant at the 0.05 level.

Figure 17. Political stability versus distribution of opportunities subindex



Source: Authors' compilation. Index of political stability and violence from Kaufmann, Kraay, and Mastruzzi (2003).
*Correlation is significant at the 0.05 level.

Figure 18. Political stability versus social capital subindex



Source: Authors' compilation. Index of political stability and violence from Kaufmann, Kraay, and Mastruzzi (2003).
Correlation is not significant.

Thus, this exploratory analysis of the development significance of social cohesion and its two dimensions in Latin America has provided some empirical validation for the need to focus on these concepts for purposes of both academic research and policymaking. As we discuss in the next section, the findings presented, as well as those in the literature, highlight the need for a balanced and integrated approach to development that entails fostering the productive potential and inclusiveness of all citizens.

6. POLICY IMPLICATIONS AND FINAL CONSIDERATIONS

The topics of social cohesion, social capital, and inequality appear with increasing frequency in the debate over how to advance welfare and development, how to build inclusive societies, and how to promote equitable and sustainable growth. The analysis presented in this paper confirms some of the findings of previous works and points to linkages between the degree of cohesion and key capacities, such as the ability of society to achieve dynamic growth, adapt, and flexibly respond to market demands, innovate and incorporate new technologies, implement policies, and maintain a stable and predictable political and policy environment.

How then to promote social cohesion? Conceptually, there is a difficulty that stems from the lack of an agreed actionable and operational definition of this notion, however intuitively sound. In practical terms, there is the problem of setting priorities and the much greater challenge of designing and implementing policies and processes that are capable of changing realities that may be entrenched and have shaped society for many years.

Because each country's history and circumstances are unique, general prescriptions are unlikely to work. The task is to set in motion virtuous cycles that foster the capacity to reach consensus and strengthen the community by promoting solidarity and inclusion. From the analysis in this paper, the reduction of inequality, the promotion of economic opportunities, and the deepening of representation and democratic governance are all-important. We briefly take up each of these aspects below.

Reduce Inequality and Increase Opportunities

Sustained inequality can produce political instability, conflict, rent seeking, and low levels of investment and cooperation in the provision of public goods. One of Latin America's top priorities, therefore, is to readjust the distributional structure of income and opportunities among individuals and groups. This means shrinking income and education gaps, raising labor market capability, reducing poverty, expanding the middle class, and creating conditions for social mobility to occur.

To reach these objectives, the region must invest in human capital, concentrating in particular on the groups with the largest gaps in access, without neglecting the workforce's training and schooling needs at all levels. Investment in more competitive educational systems will facilitate opportunities for participation and upward mobility, especially for the young, and should dampen the incidence of violence and crime.

The region also needs to make its labor markets more flexible and promote job creation as part of a strategy to improve the response capacity to ever-evolving market realities and needs. The challenges here include creating the conditions needed for "good" jobs to arise and be filled (to reverse the shift of employment to low-productivity activities in the informal sector) and expanding social protection systems, insurance plans, and safety nets for those out of work or working "informally" in low-paying jobs.

The greatest challenge of all, however, lies in overcoming the forces and processes that reproduce exclusion. The task is to achieve equality in access and opportunities for excluded groups by bringing these groups into the political, institutional, and community structures that make the decisions affecting their prospects. The envelope of measures just identified will help. But, in the end, this is about more far-reaching transformations that focus on rights that need to be respected, citizenship that needs to be deepened, social guarantees that need to be provided, and a new social contract that needs to be forged.

Improve Solidarity

The elements to address in a new social contract include solidarity and redistributive equity, both of which need to be considered in the next round of fiscal reforms. Over the past two decades, fiscal reforms have focused largely on improving administration and making tax structures simpler, more neutral, and better suited to international economic integration. Issues of redistributive equity have been left mostly to other policy instruments. They need to be taken up in the fiscal domain going forward. To improve the equity and revenue-raising potential of tax systems, countries should reassess the distributive effects of their systems; increase direct taxation and revenue mobilization; improve horizontal equity; and tie tax policy to citizen benefits, with a special focus on expenditures that reach the vulnerable in the middle-income range as well as the poor.

Transform Governance

It emerges from the analysis in this paper that social capital and social cohesion cannot be delinked from citizenship and truly representative democratic processes and institutions. Some of the aspects of interest here include the notion of equality under the law and the administration of justice, and transparent rules that are conducive to society-wide bargaining and participation. Thought needs to be given to the ways and means to generate capacity to reach intertemporal agreements, keep clientelism at bay, and formulate and apply state policies (sometimes called national projects) with a long-term focus.

Other aspects in the realm of governance include improvements in the quality of the institutions that serve the population as well as increases in the quality and coverage of delivered services and public goods to make it possible to reverse the situation of rampant distrust in public institutions that the region's opinion surveys document.

To conclude, it is difficult (indeed, by the analysis of this paper, quite probably impossible) to achieve sustainable and equitable growth and "development for all" under conditions where inequality is entrenched and distrust the norm. Deepening social cohesion through changes that foster cooperation and a sense of solidarity and belonging can come to the rescue and lend a hand in the pursuit of development benefits and welfare widely shared.

APPENDIX A: DEFINITION OF THE VARIABLES AND SOURCES OF INFORMATION FOR THE SOCIAL COHESION INDEX AND DEVELOPMENT AND GOVERNANCE OUTCOME INDICATORS

SOCIAL COHESION INDEX

Distribution of Opportunities Subindex

Incidence of poverty

We measure incidence of poverty as the percentage of the population below the national poverty line for each country, as calculated by ECLAC. In constructing the index, we invert the values of this indicator so that higher values indicate less poverty and broader opportunities. The data on the incidence of poverty are taken from Jarque, Mejía, and Luengas (2005). The sources used in this study are ECLAC (2002, 2004b).

Gini coefficient

We use the standard Gini coefficient, which, theoretically, ranges from 0 to 1, with 0 implying perfect equality and 1 perfect inequality (all the wealth concentrated in one person). In constructing the index, we invert the values of this indicator so that higher values indicate less inequality and broader opportunities. The data for the Gini coefficients are taken from Jarque, Mejía, and Luengas (2005) based on ECLAC (2003).

Size of the middle class

The measurement of the size of the middle class comes from adding the total percentage of income earned in deciles 3, 4, 5, 6, and 7 of the population. The source used for this measure is the Socioeconomic Database for Latin America and the Caribbean (CEDLAS, 2006; World Bank, 2006).

Educational Gini coefficient

Like the income Gini coefficient, we calculate this indicator from the distribution of the level of schooling attained by the population over 15 years of age. In constructing the index, we invert the values of this indicator so that higher values indicate less inequality and broader opportunities. The source used for this measure is Jarque, Mejía, and Luengas (2005).

Intergenerational mobility

This indicator was created by examining information from household surveys related to the educational attainment of its children. Creating the index involves two steps. First, an index of educational attainment was created based on whether children are above or below the median schooling of their age cohort. Second, the correlation among siblings for this index of attainment was calculated based on the sample population of families with at least two children. The higher the correlation, the greater the importance of the school background of the family to explain the school achievement of adolescents who live with their parents and the lower the rate of intergenerational mobility of the country. We invert this index so that larger values indicate greater social mobility. The source used in this study is Behrman, Gaviria, and Székely (2001).

Social Capital Subindex

Compliance with the law

We base this indicator on the following question from Latinobarómetro: “Would you say that nationality (e.g., Chileans) comply with the law. Very much, to a fair degree, seldom, or not at all?” We average the country means of the responses for 2002, 2003, and 2005, standardized on a scale of 0 to 1, and invert them so that higher values reflect greater trust. The source used in this study is Latinobarómetro (2002, 2003, 2005).

Interpersonal trust

We base this indicator on the following question in the Latinobarómetro: "Generally speaking, would you say that you can trust the majority of people or that one can never be too careful in dealing with others?" For 2003, 2004, and 2005, the proportion of all those surveyed who answered that "you can trust the majority of people" was calculated. The index is the average for the three years. The source used in this study is Latinobarómetro (2003, 2004, 2005).

Trust in institutions

This index averages the responses to the Latinobarómetro question about the trust that those surveyed have in a number of state institutions. "Please, look at this card and tell me, for each of the groups, institutions, or persons mentioned in the list, how much trust you have in each: A lot, some, little, or none." The index on trust in institutions incorporated responses for the following institutions: judiciary, police, congress, political parties, and public administration. We calculate the index by averaging the country means for each institution for 2003, 2004, and 2005, averaging across the five institutions, standardizing this result on a scale from 0 to 1, and inverting this number so that higher values reflect greater trust. The source used in this study is Latinobarómetro (2003, 2004, 2005).

DEVELOPMENT AND GOVERNANCE OUTCOME INDICATORS

Economic Growth

Average annual per capita GDP growth in the period 1990–2005. The source used in this study is World Development Indicators (World Bank, 2007).

Technology index

This indicator combines two to three subindices, depending on whether the country is considered a leader in technological innovation. For countries that are not, the technology index comprises subindices for innovation, capacity to absorb technology transfers, and information and communications technologies. The weighting for the first of these is 1/8, the second 3/8, and the third 1/2. We construct these subindices from a combination of responses to questions in the Executive Opinion Survey and from "hard data" from a number of sources. The source used in this study is World Economic Forum (2006).

Effectiveness of Governmental Institutions

This index is a simple average of the following three indicators.

Government effectiveness index

This measurement is a composite index of many of the available indicators for government effectiveness, including cabinet stability, bureaucratic quality (including the extent of red tape), and the level of waste in government spending. We create this aggregation of indicators from a variety of sources using a statistical technique known as unobserved components analysis. Some of the indicators are survey based, others are based on expert assessments. The sources used in this study are World Bank Institute http://info.worldbank.org/governance/wgi/index.asp) and Kaufmann, Kraay, and Mastruzzi (2003).

Efficiency of public policy

This indicator calculates the extent to which policy reflects a socially and economically productive use of scarce resources, based on two components. The first, "Waste in Government Spending," is based on a question from the Executive Opinion Survey of the *Global Competitiveness Report* of the World Economic Forum. The second measures whether resources are focused on where they are most effective and comes from the State Capabilities Survey carried out by the IDB. The source used in this study is IDB (2005b).

Functioning of public institutions

We base this indicator on the average of all answers to the following question in the Latinobarómetro: "Generally speaking, what would you say your opinion is of the way public institutions operate? Would you say that they work very well, well, all right, badly, or very badly?" We calculate the indicator on the average values of the answers for each country, standardized on a scale of 0 to 1, considering a possible rating of answers from 1 to 5; we then invert the standardized score so that higher numbers reflect opinions on the operations of public institutions that are more favorable. The source used in this study is Latinobarómetro (2005).

Quality of Development Policies

This index is a simple average of the following four indicators.

Government efficacy in reducing poverty and inequality

This is based on the following question in the *Global Competitiveness Report,* 2005–2006: "In your country, how effective are the efforts of the government to reduce poverty and deal with income inequality on a scale of 1 to 7, where 1 = ineffective and 7 = effective?" We calculated the indicator by taking the average value of the responses for each country, standardized on a scale of 0 to 1. The source used in this study is World Economic Forum (2006).

Confidence that tax revenues are being well spent

This is based on the following question from the 2005 Latinobarómetro: "With regard to taxation in general, do you trust that the money raised by taxation is well spent by the state? Yes or no?" The indicator is the proportion of people who answered yes. The source used in this study is Latinobarómetro (2005).

Control of corruption

This is a composite index of many of the available indicators dealing with the control of corruption. Derived from a variety of sources, it was calculated using a statistical technique known as unobserved components analysis. Some indicators are based on survey material, others on expert opinions. The World Bank indicator is standardized on a scale of 0 to 1, based on the minimum and maximum values found in the global sample of countries. The source used in this study is World Bank Institute (http://info.worldbank.org/governance/wgi/index.asp). For a description of the indicator, see Kaufmann, Kraay, and Mastruzzi (2003).

Corruption among public officials

This is based on the following question from the 2005 Latinobarómetro: "Imagine that the number of public officials in (your country) was 100 and you had to say how many of these 100 are corrupt. How many would you say were corrupt?" We calculate the indicator using the average proportion of public officials considered to be corrupt by those surveyed, standardized on a scale of 0 to 1. The source used in this study is Corporación Latinobarómetro (2005).

Political Stability and the Absence of Violence

This measurement combines indicators based on survey material and expert opinions. The World Bank indicator is standardized on a scale of 0 to 1, based on the minimum and maximum values found in the global sample of countries. The sources used in this study are

World Bank Institute (http://info.worldbank.org/governance/wgi/index.asp) and Kaufmann, Kraay, and Mastruzzi (2003).

APPENDIX B: UNDERLYING INDEX VALUES OF THE TWO COMPONENTS OF THE SOCIAL COHESION INDEX

Table B.1. Distribution of opportunities subindex

Country	Poverty incidence (inverted)	Year	Gini coefficient (inverted)	Year	Size of the middle class	Year	Gini education (inverted)	Year	Intergenerational mobility	Year	Aggregate index
Argentina	0.585	2002	0.410	2002	0.299	2005	0.724	2000	0.470	1998	0.498
Bolivia	0.376	2002	0.386	2002	0.248	2002	0.487	2000	0.470	1999	0.393
Brazil	0.625	2001	0.361	2001	0.247	2003	0.565	2000	0.450	1999	0.450
Chile	0.812	2003	0.450	2003	0.261	2003	0.657	2000	0.550	1998	0.546
Colombia	0.486	2002	0.425	2002	0.254	2000	0.527	2000	0.490	1999	0.436
Costa Rica	0.797	2002	0.512	2002	0.306	2003	0.575	2000	0.490	1998	0.536
Dominican Republic	0.551	2002	0.456	2002	0.285	2004	0.399	2000	0.520	1998	0.442
Ecuador	0.510	2002	0.487	2002	0.289	2003	0.553	2000	0.450	1998	0.458
El Salvador	0.511	2001	0.475	2001	0.303	2003	0.487	2000	0.390	1998	0.433
Guatemala	0.398	2002	0.457	2002	0.271	2002	0.385	2000	0.450	1998	0.392
Honduras	0.227	2002	0.412	2002	0.270	2003	0.538	2000	0.500	1999	0.389
Mexico	0.606	2002	0.486	2002	0.296	2002	0.638	2000	0.460	1998	0.497
Nicaragua	0.307	2001	0.421	2001	0.269	2001	0.482	2000	0.430	1998	0.382
Panamá	0.660	2002	0.439	2002	0.262	2003	0.662	2000	0.590	1999	0.523
Paraguay	0.390	2001	0.430	2000	0.250	2003	0.625	2000	0.630	1998	0.465
Peru	0.452	2001	0.475	2001	0.284	2003	0.628	2000	0.520	2000	0.472
Uruguay	0.846	2002	0.545	2002	0.319	2004	0.654	2000	0.590	1998	0.591
Venezuela	0.514	2002	0.500	2002	0.325	2003	0.645	2000	0.520	1999	0.501

Table B.2. Social capital subindex

Country	Compliance with the law	Year[a]	Interpersonal trust	Year[b]	Confidence in public institutions	Year[b]	Aggregate Index	Social cohesion index
Argentina	0.275	2005	0.215	2005	0.295	2005	0.261	0.379
Bolivia	0.333	2005	0.186	2005	0.239	2005	0.253	0.323
Brazil	0.383	2005	0.045	2005	0.367	2005	0.265	0.357
Chile	0.422	2005	0.146	2005	0.392	2005	0.320	0.433
Colombia	0.364	2005	0.184	2005	0.364	2005	0.304	0.370
Costa Rica	0.399	2005	0.111	2005	0.362	2005	0.291	0.413
Dominican Republic	0.342	2005	0.185	2005	0.385	2005	0.304	0.373
Ecuador	0.378	2005	0.188	2005	0.213	2005	0.260	0.359
El Salvador	0.373	2005	0.181	2005	0.322	2005	0.292	0.363
Guatemala	0.328	2005	0.178	2005	0.234	2005	0.247	0.319
Honduras	0.344	2005	0.175	2005	0.345	2005	0.288	0.339
Mexico	0.311	2005	0.199	2005	0.282	2005	0.264	0.381
Nicaragua	0.336	2005	0.137	2005	0.236	2005	0.236	0.309
Panamá	0.399	2005	0.206	2005	0.311	2005	0.305	0.414
Paraguay	0.278	2005	0.101	2005	0.274	2005	0.217	0.341
Peru	0.290	2005	0.155	2005	0.260	2005	0.235	0.353
Uruguay	0.516	2005	0.319	2005	0.439	2005	0.425	0.508
Venezuela	0.389	2005	0.191	2005	0.358	2005	0.313	0.407

[a]This index is an average of the country means of responses from the 2002, 2003, and 2005 Latinobarómetro surveys.

[b]This index is an average of the country means of responses from the 2003, 2004, and 2005 Latinobarómetro surveys.

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